EVERETT TRANSFER OF DEVELOPMENT RIGHTS FEASIBILITY STUDY

FINAL REPORT

APRIL 2012

PROPERTY COUNSELORS
REAL ESTATE RESEARCH & APPRAISAL

MAKERS
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I. INTRODUCTION AND SUMMARY

INTRODUCTION

BACKGROUND

The City of Everett is designated a metropolitan city and regional growth center. As such, it is expected to accommodate a significant growth in population and employment. A Transfer of Development Rights (TDR) program is a tool to guide growth to urban areas, while preserving scarce rural resources. A TDR program is a market-based approach to meeting these twin objectives.

TDR programs are feasible where there is demand for additional higher density multifamily development; where TDR provides an option for increased density beyond a base; and the price of a TDR credit is less than the cost of obtaining development rights through other options (e.g. purchasing additional site area or providing bonus amenities). Two recent studies considered the applicability and feasibility of a TDR program in Snohomish County and the Puget Sound region. Each addressed the potential for such a program in Downtown Everett. The studies reached similar conclusions.

The first study *Receiving Area Strategy for TDR Program in Snohomish County* was prepared for Snohomish County in 2007. The conclusions of the study included the following:

- Developers are currently not building up to the maximum density allowed in downtown zones (B3 and R5). Rents are not high enough to support the higher cost of concrete and steel construction necessary for buildings over seven stories.

- Developers indicated that a TDR program might be feasible in R3/R4 zones. They might pay approximately 50% of the market value for a TDR credit.

The second study *Market Analysis for Regional Transfer of Development of Rights in Central Puget Sound* was prepared for the Washington State Department of Trade Commerce and Economic Development in 2008. The analysis evaluated prototypical developments in several specific geographic areas to determine the value developers would place on additional density available through TDR. If the price of TDR credits can be set at an amount equal to or less than their value, a TDR program would be feasible. The analysis considered a mixed use prototype in Downtown Everett with five floors of apartments over a two floor base. The analysis concluded that "...based on existing market conditions, the project is currently not economically feasible. Rents would have to go up 40% to 50% to create sufficient revenues that would be the foundation of a TDR model."

As noted in the first study, there may be potential for applying a TDR program in areas outside Downtown Everett. Areas zoned R3/R4 were specifically mentioned by several developers. The R3 zone allows for a range of housing types with a density limit of 29 units acre, a height limit of 45 feet, and no lot coverage maximum. A project built within the 45' height limit could greatly exceed the 29 unit per acre density maximum, if a density bonus were allowed as part of a TDR or other incentive program. Further analysis should address the potential for this and other zones outside Downtown.

The Puget Sound Regional Council (PSRC), together with King, Pierce, and Snohomish counties are evaluating the potential of a regional TDR program as a means to preserve open space and resource lands in the three counties. The City of Everett has received funding a grant from The US Environmental Protection Agency to evaluate the feasibility of a TDR program within receiving sites in the city. This comprehensive analysis of opportunities for a TDR program will address several questions:

- Is there market demand for higher density residential development?
- What logical increments of development capacity make sense given zoning and building code provisions?
- What is the value of the additional development rights allowed?
- If the value is positive, how can TDR's be priced to provide an incentive for their use?
- What other regulatory and public facility features should be incorporated within a successful program?

ORGANIZATION OF REPORT

This report documents the results of the feasibility study. It is organized in eight sections.

I. Introduction and Summary

II. Overview of Transfer of Development Rights

III. Zoning Analysis

IV. Market Opportunities

V. TDR Scenarios

VI. Feasibility Analysis

VII. Compatibility, Infrastructure Needs, and Mitigation

VIII. Conclusions and Recommendations

The major findings of each section are summarized below.

SUMMARY

OVERVIEW OF TRANSFER OF DEVELOPMENT RIGHTS

A developer pursuing a project on any site will consider several issues in determining how much density to provide. These considerations include market demand for the product, physical characteristics of the site, the cost of the site and the allowable development per the zoning code. If the developer chooses to develop the site at a density below that allowed by zoning, there is no reason to explore acquiring additional development rights. If the developer chooses to consider higher density, he will evaluate whether the increased value of the development justifies the costs of the additional development rights. With higher density of development, the cost of land per square foot of building area is lower. However, the construction cost is often higher, particularly when parking must be provided in a structure. At the same time, a higher density project may support higher rents because of secure parking, project amenities, and potentially better views.

There are established purchase and transfer of development rights programs in the region that provide experience in valuing development rights. Snohomish County has some experience with purchased development rights from rural areas, but no experience to date with redemption of those rights in urban areas. There has been a more active market in King County. A rural TDR credit equals two additional receiving site dwelling units, while an urban TDR equals one additional receiving site unit. There are many more transactions at the sending ends than actual redemptions at the receiving sites. The value of development rights as purchased in the private market is much lower than the price paid through the public programs at the sending end. Based on current market data, a sending site rural TDR credit is worth $15,000.

ZONING ANALYSIS

Residential development is allowed in single family, multifamily and commercial zones. Allowable density in multifamily zones ranges from 20 units per acre in the R3L zone to 58 units per acre in the R-4 zone, and is unlimited in the R-5 zone. Allowable densities in the commercial zones vary from 29 units per acre in the B2-B zone to 58 units per acre in the C-1 and B-2 zones, and are unlimited in the Broadway Mixed Use zone and the Downtown Core. Residential uses are limited to live work units on sites smaller than two acres in the C-2 ES zone.

Current multifamily housing projects are occurring in lower density zones or at densities lower than the maximum level allowed. Most of the recent developments are built at 3 to 4 stories with a mix of surface and structured parking. Even in the zones without height limits, the recent buildings have not exceeded 80 feet. The R-3 zone allows 45 feet in

height, but recent buildings are 2 and 3 stories. Most of the projects are single-purpose residential buildings.

Several zoning classifications may provide opportunities for TDR.

C-2ES zone near the Everett Station where no residential (other than live-work units or projects on sites two acres or larger) is currently allowed and where a major transit station and related public investment is in place.

C-1 and B-2 zones (including proposed Mixed Use Overlay (MUO) and E-1 zones on Evergreen Way) along the SWIFT Bus Rapid Transit route.

R-3 zone which is extensive and where the current allowed density is low.

R-2 zone where duplexes could be allowed on smaller lots.

R-1 zone where cottages could be developed at twice current densities to expand the range of available housing alternatives.

MARKET OPPORTUNITIES

The multifamily rental market is strong at the present time and should improve with an economic recovery in the region. Prevailing market rents are near the threshold for feasible development in some areas of the city. The opportunities for higher density new development that might benefit from TDR's are sites that offer unique and scarce features, thus justifying a cost premium; and in zones where existing development is at allowable maximum densities. These opportunities include high amenity settings and sites along the major transit corridors. Both offer the potential to provide higher-density development, while taking advantage of the excellent public transportation. In particular, the R-2 and R-3 zones west and east of Evergreen Way could accommodate increased density as the nodes on the corridor itself experience even greater density. In particular, R-2 zones along the Corridor could allow townhomes at densities comparable to R-2A. The C-2ES zone at the Everett Station is an obvious candidate as well.

The outlook for retail is positive particularly for neighborhood and convenience retail. Such tenants are often found in mixed-use buildings. Prevailing rental rates are low compared to the region as a whole, and will be a factor in the overall feasibility of mixed-use development. General purpose office is not a strong candidate use for a mixed-use residential building, because the amount of upper level floor area is limited, and there are few mutual benefits between residential and office uses.

TDR SCENARIOS

Six scenarios address a combination of the identified zoning and market opportunities. The opportunities are site-specific in most cases, but reflective of opportunities throughout a zone.

Table 1
Summary of TDR Scenarios

	E-1 MUO	C-2 ES	B-2	R-3	R-2	R-1
Site Area (acres)	1.08	1.87	6.52	9.17	0.14	0.59
Gross Building Area (SF)						
Residential	106,800	208,100	349,600	558,000	2,400	8,086
Commercial	-	5,800	34,900			
Subtotal	106,800	213,900	384,500	558,000	2,400	8,086
Residential Units						
Total Units	121	205	341	558	2	9
Parking Spaces						
Surface	-	-	70	-		
Structure	104	320	443	630	2	9
Subtotal	104	320	513	630	2	9
Residential Spaces per Unit	0.86	1.56	1.30	1.13	1.00	1.00
Density						
Assumed	112.3	109.6	52.3	60.9	14.4	15.3
Current Maximum	58.0	-	29.0	29.0	7.2	1.7
Transfer Bonus						
Dwelling Units	58	205	152	292	1	8
Building Area	51,617	208,100	155,752	294,287	1,200	7,188

FEASIBILITY ANALYSIS

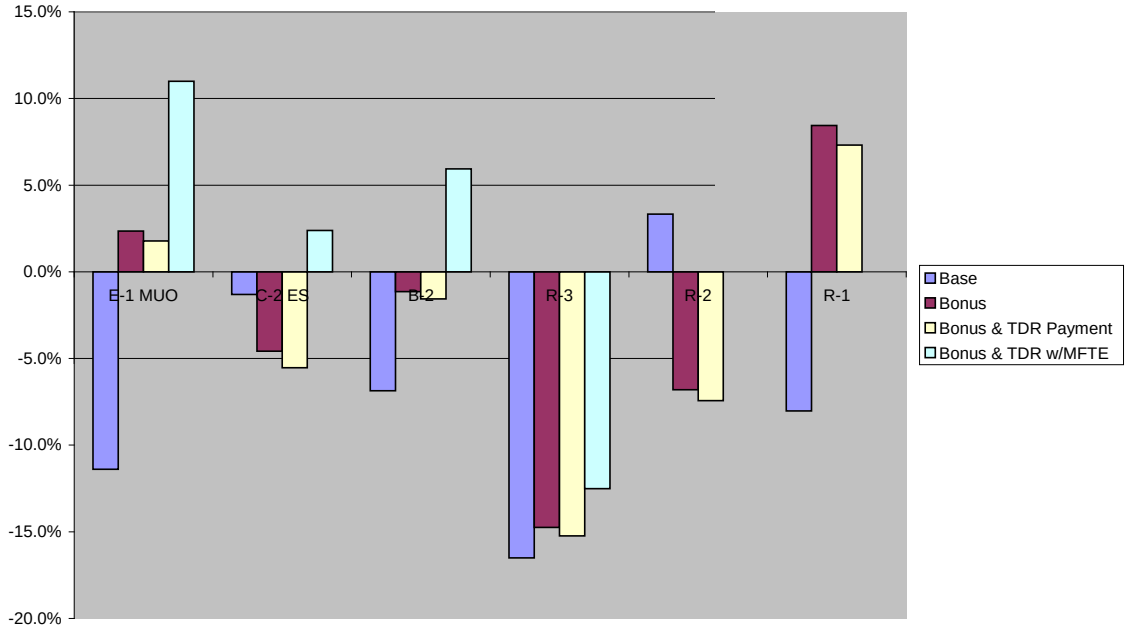
The financial analysis is intended to answer the questions of whether the TDR bonus scenarios are feasible, whether there is an incentive to purchase development rights to achieve the bonus density, and what is the appropriate value to place on development rights. In addition to base and higher density cases in each scenario, an additional case assumes the availability of the Multifamily Tax Exemption for the E-1, C-2 ES, B2, and R-3 scenarios. This program has been shown to be a strong incentive for development elsewhere in the City.

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the value of the completed development for any project to its cost of development. In the case of a single family or townhome development, the value is calculated as the net proceeds from sale of units. In the case of apartments and commercial, the value is calculated as the capitalized value of the annual income stream. The difference between the value and the development cost is the entrepreneurial return to the developer. The return can be expressed as a percentage of development cost. A rate of 10% is considered a minimum threshold for feasibility.

The results of the analysis are summarized in the following figure:

Figure 1.
Summary of Financial Results

Entrepreneurial Return as Percent of Development Cost Development Scenarios



The higher density scenarios achieve improved economic performance in most cases, but fall short of targeted entrepreneurial return of 10%. The cases that show the strongest performance are those that take advantage of the Multifamily Tax Exemption program. The E-1 MUO scenario achieves a rate of return that exceeds 10%. The E-1 MUO scenario benefits from a very low parking ratio. The R-1 Cottage Housing scenario also performs well. It achieves a large increase in density without requiring an expensive construction solution.

For many of the other scenarios with the tax exemption program, the target return could be achieved with realistic potential increases in rents beyond assumed levels.

The E-1 MUO is the only case that supports a positive value for the TDR credits at $5,200. Assuming a sending site value of $15,000 per unit, the equivalent transfer rates would be 2.9 receiving site units per sending site unit.

Ultimately it is the multifamily tax exemption program that makes the bonus schemes even marginally feasible. Application of both a TDR and a tax exemption program would have the effect of funding rural land preservation through the foregone tax revenues from the tax exemption, rather than the payments from developers.

COMPATIBILITY, INFRASTRUCTURE NEEDS, AND MITIGATION

The higher density bonus cases are generally compatible with existing development. The allowable uses are the same in most cases as under the base zoning. The overall bulk of development would be higher, but the associated impact could be mitigated with height and setback regulations. In the C-2 ES scenario, residential uses may create conflicts with existing warehouse and industrial uses. Such businesses often fear that resident complaints about noise and truck traffic might result in restrictions to their operations.

The higher density development under the TDR scenarios may place greater demands on infrastructure, but these demands would not exceed the infrastructure capacity for the foreseeable future. The most important infrastructure needs are likely to be community amenities such as sidewalks, streetscape improvements, pedestrian pathways and parks. Regarding streets, most of the sites considered have excellent transportation access and proximity to commercial services and public amenities. While locally generated traffic on these streets may increase as a result of additional density, it will likely be much less than existing through-traffic on these routes. For utilities, private developers would be required to fund a portion of any cost of increasing the associated capacity. Community facilities are important to accommodate an increasingly dense environment, and to justify the higher rents or sales prices necessary to provide an adequate return on investment for the higher capital costs of high density development. All the TDR scenarios are intended to encourage pedestrian activity, both to access near-by transit, as well as commercial and public services. Accordingly, pedestrian connections are the most important community amenity.

Recent legislation authorizing tax increment financing in conjunction with transfer of development rights is unlikely to generate significant levels of funding for infrastructure improvements. While higher density scenarios could support the development of needed pedestrian improvements with the full tax increment, the available increment is discounted by applying a factor that reflects the City's use of TDR's as a percent of its total allocation. Given the likely use of TDR's and the likely high allocation, the factor will be low, and the available tax increment will be low as well.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

1. A Transfer of Development Rights program is a market-based concept that seeks to shift development density from areas identified as open space and resource lands to urban areas with appropriate services and supporting facilities.

2. TDR programs in the Puget Sound Region have only been successfully applied in receiving areas where development sites are scarce and the price of land is high.

3. Based on the 2007 Buildable Lands Study, the City has a capacity for additional development of 13,000 additional units under current zoning, with 12,000 of those units in commercial or multifamily zones.

4. Current multifamily housing projects are occurring in the lower density multifamily zones or at densities lower than the maximum level allowed.

5. The best TDR opportunities based on the combination of current zoning provisions and recent development characteristics are:

   C-2ES zone near the Everett Station where no residential (other than live-work units or projects on sites two acres or larger) is currently allowed and where a major transit station and related public investment in place.

   C-1 and B-2 zones (proposed MUO and E-1 zones on Evergreen Way)

   R-3 zone which is extensive and where the current allowed density is low.

   R-2 zone where duplexes could be allowed on smaller lots.

   R-1 zone where cottages could be developed at twice current densities.

6. The strongest market opportunities for higher density new development that might benefit from TDR's are sites that offer unique and scarce features, thus justifying a cost premium; and in zones where existing development is at allowable maximum densities.

7. The market should support mixed use projects with multifamily residential development, as well as single purpose residential buildings.

8. Six scenarios provide a combination of the identified zoning and market opportunities; opportunities that are site-specific in most cases, but reflective of opportunities throughout a zone.

9. The financial analysis addresses whether the TDR bonus scenarios are feasible, whether there is an incentive to purchase development rights to achieve the bonus density, and the appropriate value to place on development rights.

10. A project is considered to be feasible if its value at completion exceeds the development cost by an amount equal to 10% of the development cost.

11. The higher density scenarios achieve improved economic performance in most cases, but fall short of the targeted entrepreneurial return of 10%. For many scenarios, the target return could be achieved with realistic potential increases in rent.

12. The scenario that performs the best is the E-1 MUO.

13. The E-1 MUO scenario could support a price per gross square foot of TDR at $5.23, equivalent to a transfer rate of 2.9 square feet at the receiving end, assuming a sending site value of $15,000, and an average unit size of 1,000 gross square feet.

14. Ultimately it is the multifamily tax exemption program that makes the bonus schemes even marginally feasible.

15. The higher density bonus cases are generally compatible with existing development, except in the C-2 ES zone where residential uses may conflict with warehouse and industrial uses.

16. The higher density development under the TDR scenarios may place greater demands on infrastructure, but these demands may not exceed the infrastructure capacity for the foreseeable future. The most important infrastructure needs are likely to be community amenities such as sidewalks, streetscape improvements, pedestrian pathways and parks.

17. Recent legislation authorizing tax increment financing in conjunction with transfer of development rights is unlikely to generate significant levels of funding for infrastructure improvements.

RECOMMENDATIONS

1. The City shouldn't be an active participant in the Transfer of Development Rights program as currently conceived in the regional TDR program and current legislation.

Demand for higher density development is not high enough at this time to support an extra charge for development rights. Further the amount of development rights currently identified as available are far greater than the realistic capacity of participating receiving cities under realistic transfer rates. The Tax Increment Financing program tool for use in conjunction with TDR's does not provide a significant benefit to the City under current legislation.

2. The City should make use of the powerful Multifamily Tax Exemption program to encourage higher density development in areas of the City which are the most promising candidates for higher density development.

The Multifamily Tax Exemption program can provide a strong financial incentive for developers to provide higher density residential development. The City can set appropriate criteria for location, income levels and densities; as well as desirable design features. Provision of development meeting these criteria will come at the cost of foregone tax revenue. The City should invest its foregone revenue in such ways as to maximize its own returns. While the nature and value of the returns are subjective and subject to local policy determination, the return from desired development characteristics would be captured entirely by the City, while the preservation of open space or resource lands is not captured directly and is shared throughout the County.

3. The City should consider proposing changes to the Tax Increment Financing provisions for the Transfer of Development Rights program, to increase the value of the infrastructure improvements that could be funded.

The current tax increment funding tool provides a challenging trade-off: the City must plan for a high share of allocated TDR's in order to receive a high percentage of the tax increment from new development. The lack of strong demand for transferred rights discourages a city from accepting a significant share of its allocation. But by accepting a

smaller share, it reducing the value of the potential increment. The City should work with other jurisdictions to revise the legislation to eliminate the city ratio provisions that creates the disincentive.

II. OVERVIEW OF TRANSFER OF DEVELOPMENT RIGHTS PROGRAMS

A Transfer of Development Rights (TDR) program is intended to be a market-based solution to the challenge of preserving resource lands in rural areas. Demand for development rights in higher density urban settings is expected to provide the funding to purchase the development rights in the rural areas, thereby preserving those lands from development. The success of such a program is based on the existence of willing buyers and sellers, which in turn is based on perceived value at each end of the transaction.

OVERVIEW

A developer pursuing a project on any site will consider several issues in determining how much density to provide. These considerations include market demand for the product, physical characteristics of the site, the cost of the site and the allowable development per the zoning code. If the developer chooses to develop the site at a density below that allowed by zoning, there is no reason to explore acquiring additional development rights. If the developer chooses to consider higher density, he will consider whether the increased value of the development justifies the costs of the additional development rights.

The additional development rights can be valued in simple terms by the amount of additional site area that would be required to yield the same amount of allowed development. In the R-3 zone for example, land is currently priced at approximately $20 per square foot, and the allowable density is 29 units per acre. The land value per unit is thus approximately $30,000. This estimate provides an initial threshold value of development rights under a TDR program or any bonus program.

The valuation process is complicated by the fact that the revenue and cost factors that determine value for the underlying zoning may not apply to the incremental development. In particular, if the increased development costs are relatively higher than the increased revenues, the value of development rights will be lower than the value under the simple formula presented above. With more dense development, it's almost always true that incremental costs per unit will be higher. While there may be some construction cost efficiencies, there is a major inefficiency related to the cost of parking. With densities greater than 29 units per acre, some if not all parking must be provided in expensive structures, and the associated cost per dwelling unit can increase by 20% or more.

At the same time, the denser product is likely to support higher rents or prices, as a result of better views, secure parking, and other project amenities. In order to evaluate the relationships among all revenue and cost factors, it's important to consider the financial performance of a variety of development scenarios. The financial analysis in this study is

based on an evaluation of six zoning and development scenarios. These scenarios are described in the next section.

EXPERIENCE IN THE REGION

There are established purchase and transfer of development rights programs in the region that provide experience in valuing development rights. Snohomish County has some experience with purchased development rights from rural areas, but no experience to date with redemption of those rights in urban areas. Under the County's Purchase of Development Rights (PDR) program, nine development rights units were purchased in two transactions since 2005, with an average purchase price of $112,031 per unit. Under a separate TDR program, the County purchased 49 development rights units from a landowner at an average price of $43,000 per unit. The County sought to auction the rights at $50,000, but didn't receive any offers. The Cascade Land Conservancy (now Forterra) purchased development rights on forest lands at a price of $29,400.

There has been a more active market in King County. County staff maintains data on all transactions, both public and private. The level of activity is summarized in Table 2.

Table 2
Summary of TDR Transactions
King County: 2000 to 2011

	Transactions	Development Rights Units	Median Price
Urban TDR's	40	274.0	$8,000
Rural TDR's	28	1,477.5	$17,500
Total	68	1,752.5	

Source: King County Transfer of Development Rights Program

A rural TDR credit equals two additional receiving site dwelling units, while an urban TDR equals one additional receiving site unit.

Of the total TDR's bought and sold during this period, 254 have been redeemed by developers for increased density. The most recent transactions occurred in January 2011, with four urban TDR's sold for $28,000. Rural TDR's sold for $15,000 in June 2010. Prices were roughly twice these levels in 2006 and 2007.

The cities of Seattle and Issaquah have participated as receiving sites for the county program. In Issaquah, a transferred development right can be applied as one additional dwelling unit, one pm peak hour trip, 1,000 to 2,000 square feet of impervious surface, or 1,000 to 2,000 square feet of additional building area above a base height.

In the Denny Triangle area of Seattle each TDR unit can be applied as 2,000 square feet of commercial office or residential development. It has been used for three high rise buildings in the area.

The City of Bellevue has recently designated Bel-Red as a receiving site. Other future partners with the county include: Sammamish, Maple Valley, Kirkland, Normandy Park, Redmond, and Black Diamond.

The combined experience in the two counties indicates that:

- There are many more transactions at the sending ends than actual redemptions at the receiving sites.
- The value of development rights purchased in the private market is much lower than the price paid through the public programs at the sending end.
- Activity levels vary with real estate markets, and current activity is slow compared to levels in 2006 and 2007.
- Based on current market data, a sending site rural TDR credit is worth $15,000.

III. ZONING ANALYSIS

A Transfer of Development program will be considered by developers if the program allows for development that differs from what's allowed with the underlying zoning. Accordingly, the underlying zoning represents the starting point for a consideration of TDR opportunities. This section provides a description of what is allowed under the existing residential and commercial zoning designations, as well as a description of what has actually been built. Several zoning designations are identified for feasibility analysis in Section VI.

ZONING DESIGNATIONS

The relevant zoning designations are those that allow housing in one form or another. Housing is currently allowed in single family, multifamily, and some business or commercial zones. The capacity of existing zoned land in the City was estimated in the Buildable Lands Report in 2007. The results are summarized in Table 3.

Table 3
Residential Development Capacity (Dwelling Units) 2007

	Pending	Vacant	PartUse	Redev	Total
Business and Commercial Zones	2,877	746	32	4,371	8,026
Single Family Residential Zones	534	243	422	338	1,537
Multifamily Residential Zones	1,278	386	94	2,335	4,093
Total	4,689	1,375	548	7,044	13,656

Source: City of Everett, Buildable Lands Report 2007

The number of units in the pending column represents units in projects identified, but not built at the time of the analysis. The number of units in the vacant column represents potential units on sites vacant at the time of the analysis. The number of units in the Partial Use column represents the number of units that could be built on sites where only a portion of the land is used and additional development could occur without demolition of the existing improvements. The number of units in the Redevelopment column represents units that could be built on underutilized sites with replacement of existing units.

As shown, the analysis identified capacity for 13,700 additional dwelling units in the City under current zoning as of 2007. The business and commercial zones have the greatest capacity for additional dwelling units. While there are vacant and partial use sites in all three categories, the greatest capacity is for Redevelopment sites.

The specific characteristics of the major multifamily zones are summarized in Table 4. The table does not include either the Single Family R-1 zone or the R-5 zone. The latter

zone is not included because it does not have a density limit and therefore would not provide any incentive for TDR's. The highest densities shown are for the R-3 and R-4 zones at 29 and 58 units per acre respectively.

The specific characteristics of the major commercial zones are summarized in Table 5. The allowable densities in these zones are generally higher than in the residential zones. There is no maximum density for the Broadway MU zone or the B-3 zone. The maximum density in the C-1 and B-2 zones is 58 units per acre.

RECENT DEVELOPMENT

Table 6 summarizes the characteristics of 25 multi-family projects that received building permits for new construction since 2000. The projects are organized by zoning designation, and the actual density is compared to the permitted density. The highest allowable densities are in B-3, R-5 and BMU (Broadway Mixed Use) zones where there are no density limits. The most common densities are the B-2B and R-3 zones with densities of 29 units per acre, and R-4 and B-2 with densities of 58 units per acre. The latter zones allow for 80 foot building heights. Most of the recent developments are built at 3 to 4 stories with a mix of surface and structured parking. Even in the zones without height limits, the recent buildings have not exceeded 80 feet. The R-3 zone allows 45 feet in height, but recent buildings are 2 and 3 stories.

Most of the projects are single-purpose residential buildings. The mixed-use buildings in the B-1 zone have small amounts of retail. The buildings in the B-3 zone are mixed use, but the retail spaces are not yet fully leased.

Table 4
Characteristics of Residential Zones

	R-2	R-3L	R-3	R-4
Purpose	Single family at medium density with limited amount of duplexes	A variety of multifamily uses at a low density	A variety of multifamily uses at medium density	Provide high density multifamily uses
Extent of zone	Considerable R-2 zoned areas E/W of 99 in Central/Southern areas	Very limited	Considerable R-3 zoned areas E/W of 99 in Central/Southern areas	Outside of the designated Core Residential Area, the only R-4 zone is located near the north end of the Broadway corridor
Current Uses	SF✓ ADU✓ Duplex✓ with min 7,500sf lot Attached SF ✓ via cluster subdivision only	SF✓ ADU✓ Duplex✓ Attached SF ✓ MF ✓	SF✓ ADU✓ Duplex✓ Attached SF ✓ MF ✓	SF✓ ADU✓ Duplex✓ Attached SF ✓ MF ✓
Current restrictions	Height: 28’ Lot coverage: 40% DU/acre: 5,000sf lots Design: Chapter 7 includes design standards for small lot SF and duplexes	Height: 35’ Lot coverage: NA DU/acre: 20 Design: Chapter 7 includes design standards for small lot SF and duplexes; Chapter 15 for multifamily standards	Height: 45’ Lot coverage: NA DU/acre: 29 Design: Chapter 7 includes design standards for small lot SF and duplexes; Chapter 15 for multifamily standards	Height: 80’ with strict stepback requirements near R-1/2 zones Lot coverage: NA DU/acre: 58 Design: Chapter 15 for multifamily standards ; Chapter 7 includes design standards for small lot SF and duplexes

Table 5
Characteristics of Commercial Zones

	C-1	C-2ES	B-2	BMU
Purpose	General commercial – wide range of retail + services, plus allows multifamily	Same as C-2, except located around the Everett Station and promoting transit supportive uses	Community business zone – serving several neighborhoods, plus allows multifamily	Broadway mixed-use zone – variety of businesses + services, plus multifamily
Extent of zone	About 3 miles of Evergreen Way (south of 75th) is zoned C-1 – however – proposal in place to rezone this area per Evergreen Way Plan; The Everett Mall Way and a few other sites are also zoned C-1, with no rezone plans	The large area surrounding Everett Station.	About 3 miles of Evergreen Way (north of 75th) is zoned B-2 - however – proposal in place to rezone this area per Evergreen Way Plan. Also, a large area north of Silver Lake along I05 is zoned B-2 with no rezone plans.	Covers about 3 miles of the Broadway corridor north and south of downtown.
Current residential uses permitted	Multifamily allowed outright	Live-work units are allowed. All multifamily allowed on lots 2 acres or greater.	Multifamily allowed outright	Multifamily allowed outright
Current restrictions	Height: Up to 80' for MF/MU depending on distance to R zones. Lot coverage: N/A DU/acre: 58 Design: MF Design Standards (Chapter 15)	Height: Up to 80' for MF/MU depending on distance to R zones. Lot coverage: N/A DU/acre: N/A Design: MF Design Standards (Chapter 15)	Height: Up to 80' for MF/MU depending on distance to R zones. Lot coverage: N/A DU/acre: 58 (B-2B zone has a 29 unit/acre limit) Design: MF Design Standards (Chapter 15)	Height: 45' - 80' for MF/MU depending on location; areas within 50' of district with lower height limit are restricted to height limit of adjacent district. Lot coverage: N/A DU/acre: N/A Design: Broadway Design Standards (31A.040) + MF Design Standards (Chapter 15)

Table 6
Characteristics of Recent Multifamily Residential Projects

		Year Built	Units	Zone	Act. Density	Allowed Density	Description
1904 Wetmore Avenue	1904 Wetmore Avenue	2004	44	B-1	11.4	20.0	Mixed Use
510 W Casino Rd	510 W Casino Rd	2005	12	B-1	8.9	20.0	Mixed Use
Hope Village	5810 Evergreen Way	2004	16	B-2	32.2	58.0	
5717 Highway Pl	5717 Highway Pl	Permitted	8	B-2	22.9	58.0	
3214 Broadway	3214 Broadway	Permitted	120	BMU	187.5	N/A	
Library Place	2731 Rucker Ave.	Construction	201	B-3	146.7	N/A	Mixed Use
Potala Village	1315 Pacific	2011	108	B-3	150.0	N/A	Mixed Use
The Riverside	3625 Everett Avenue	2005	10	C-1	22.2	58.0	
Camelot II	11030 Evergreen Way	2007	192	C-1	50.8	58.0	
Woodbrook Townhomes	9410 7th Ave. SE	2004	29	R-2A	8.8	15.0	
Firhaven	1025 90th Street SW	2002	9	R-3	13.6	29.0	
Brighten Square	10124 9th Ave W	2004	46	R-3	23.7	29.0	
Jasmine Court	510 75th Street #12	2003	12	R-3	17.4	29.0	
Century House	2505 Howard Street	2002	10	R-3	20.0	29.0	
Harleen Court	606 W Casino Rd	2007	92	R-3	32.7	29.0	
123 Dorn Ave	123 Dorn Ave	2006	3	R-3	15.0	29.0	
New Century Village Phase II	2507 Howard	2007	25	R-3	32.5	29.0	
3726 Wetmore	3726 Wetmore	2009	6	R-3	27.3	29.0	
Willows	2504 Melvin Ave	2011	8	R-3	26.7	29.0	
Grandview Place North	2026 Grand ave	2007	7	R-3H	20.6	29.0	
Habitat for Humanity	3808 Hoyt Ave	2005	5	R-4	35.7	58.0	
The Vintage	1001 E Marine View Drive	2006	259	R-4	61.4	63.8	Senior
3321 Rockefeller Av	3321 Rockefeller Av	2007	8	R-4	38.1	58.0	
2706 Everett Ave.	2706 Everett Ave.	2008	7	R-4	50.0	58.0	
Peninsula Apartments	3120 Colby Avenue	2003	62	R-5	163.2	N/A	

Source: City of Everett Building Permit Data, Property Counselors

OPPORTUNITIES

The best TDR opportunities based on the combination of current zoning provisions and recent development characteristics are summarized below.

1. C-2ES zone. Since no residential (other than live-work units or projects on sites two acres or larger) is currently allowed and with a major transit station and related public investment in place, there is a substantial opportunity here associated with allowing transit-oriented residential development. The biggest challenges might be resistance from district property owners and a lack of amenities (other than transit station) that convince prospective residents that this would be a good place to live.
2. C-1 and B-2 zones (proposed Mixed Use Overlay and E-1 zones) along Evergreen Way. Density bonuses, particularly in the transit nodes appear to provide a good TDR opportunity. Consider relaxing height stepback provisions near single family zones together with TDR projects.
3. R-3 zone. Allowing increased density within existing height limit also appears to be a reasonable opportunity given the relatively large extent of the R-3 zone.
4. R-2 zone. Allowing duplexes on lots smaller than 7,500 square feet.

4. R-1 zone. Cottages could be allowed via TDR purchase at densities of up to 200% of current density, perhaps even a little higher. Instead of 7 homes/acre, this would allow up to 14 cottages/acre.

Other possible TDR opportunities exist, but the anticipated extent of their use is likely to be smaller than those mentioned above. Possibilities include R-3L (density increase), R-4 (density increase), BMU (additional building height for residential uses) and relaxed parking provisions (for multifamily zones). It's also important to note that the BMU zone already contains TDR provisions for the Broadway corridor for additional height associated with non-residential development.

IV. MARKET OPPORTUNITIES

The potential for use of Transfer of Development Rights (TDR) is related to the overall demand for development. A TDR program is successful when the demand for residential development is high relative to the land capacity at base densities. This section provides a review of current and likely future market conditions as a basis for identifying particular types of residential development that would be candidates for application of a TDR program, and identifying the market parameters that will affect the feasibility of potential projects. Various development prototypes are evaluated for feasibility in Section VI.

The primary use of interest is multifamily residential. Multifamily residential projects may include commercial components (retail and office) in a mixed-use configuration. Thus retail and office market conditions are considered in this analysis as well. For all uses, the focus is on the type and location of what has been developed recently and what is likely to be developed in the future. This section concludes with a discussion of the market for land and development sites in the City.

MULTIFAMILY RESIDENTIAL MARKET OPPORTUNITIES

The residential market includes both units for sale and for rent. The multifamily for-sale market was severely affected by the recent recession. Lenders, developers, and consumer have all lost confidence in this product for the foreseeable future. While the condominium market will undoubtedly recover to some extent in the future, apartments are the focus of the analysis in this study.

MULTIFAMILY TRENDS

Residential development activity can be summarized using building permit data.

Table 7. Summary Building Permit Activity Permitted Units by Type 1994 – 2011

	Rental	For Sale	Total
Single Family		2,868	2,868
Duplex	296	142	438
Triplex & Fourplex	127	3	130
Multifamily	3,577	1,199	4,776
Mixed-use	512	-	512
Total	4,512	4,212	8,724

Source: City of Everett, Building Permit Data

The pace of permit activity has varied dramatically as shown in Figure 2 on the following page. Single-family activity varied with the general economy, with peaks in the middle of the decade, followed by troughs at the end of the decade. Multifamily activity varied more widely throughout the economic cycle. By 2010, however, activity was low in all structure types. The breakout is shown in detail in Table 8. The figures indicate that:

- Development of rental units has exceeded that of ownership units over the period by approximately 7%.

- Condominium development activity was highest in the period 1994-1999, with subsequent activity modest in comparison, even prior to the economic downturn in 2008.

- Rental development activity has varied greatly from year to year, particularly apartment activity.

Figure 2

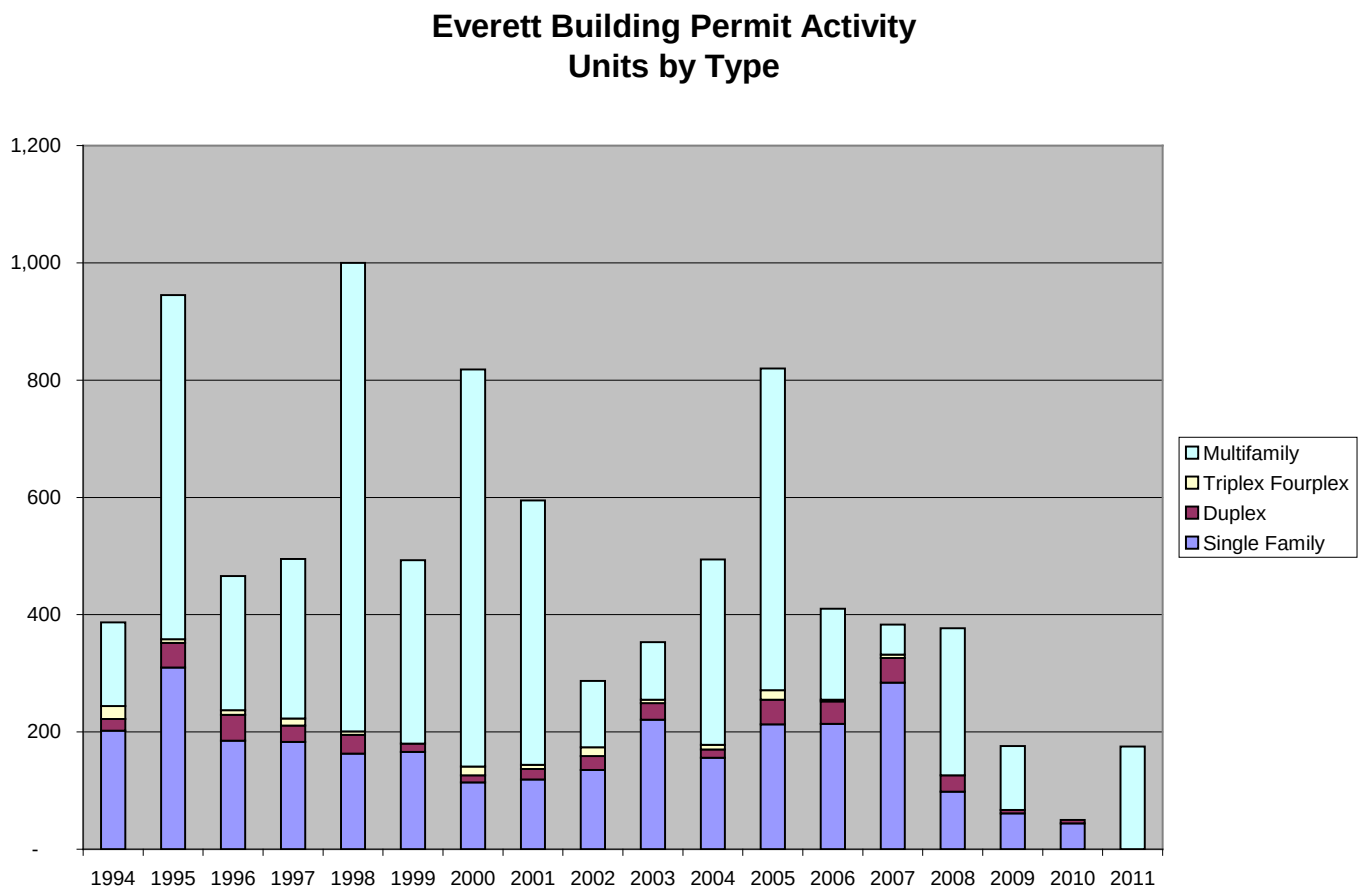

Everett Building Permit Activity
Units by Type
1,200
1,000
800
600
400
200
-
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Multifamily
Triplex Fourplex
Duplex
Single Family

Table 8
Everett Building Permit Activity
Dwelling Units by Type

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Rental									
Duplex	20	40	42	26	26	12	12	12	22
Triplex Fourplex	22	6	8	12	6	-	15	7	15
Apartment	130	199	66	142	607	114	515	400	30
Mixed Use	3	120	13	-	-	-	121	-	65
Subtotal Rental	175	365	129	180	639	126	663	419	132
For Sale									
Single Family	202	310	185	183	163	166	114	119	135
Duplex	-	2	2	2	6	2	-	6	2
Triplex Fourplex	-	-	-	-	-	-	-	-	-
Condominium Multifamily	10	268	150	130	192	199	41	51	18
Subtotal	212	580	337	315	361	367	155	176	155
Total	387	945	466	495	1,000	493	818	595	287

	2003	2004	2005	2006	2007	2008	2009	2010	2011	Grand Total
Rental										
Duplex	18	8	22	10	14	4	2	6	-	296
Triplex Fourplex	6	8	16	3	3	-	-	-	-	127
Apartment	47	271	528	127	14	211	1	-	175	3,577
Mixed Use	-	8	12	-	22	40	108	-	-	512
Subtotal Rental	71	295	578	140	53	255	111	6	175	4,512
For Sale										
Single Family	221	156	213	214	284	98	61	44	-	2,868
Duplex	10	6	20	28	28	24	4	-	-	142
Triplex Fourplex	-	-	-	-	3	-	-	-	-	3
Condominium Multifamily	51	37	9	28	15	-	-	-	-	1,199
Subtotal	282	199	242	270	330	122	65	44	-	4,212
Total	353	494	820	410	383	377	176	50	175	8,724

Source: City of Everett, Building Permit Data

MARKET STATISTICS

Vacancy and average rent data for the Everett market area are summarized in Table 9. The data are provided by Dupre and Scott, *Apartment Vacancy Report* and are broken down into three sub-areas:

Central Everett (east of Glenwood and north of Casino Road),

Paine Field (west of Glenwood and north of 148th SW), and

Silver Lake (east of Evergreen Way).

Data are shown for all units as well as those built since 2000. Average vacancy is less than 5% in most cases. The highest rents are in Central Everett. Average rents are somewhat higher for the newer units built. On a per square foot basis, the average rent for new buildings in Central Everett is $1.68 per square foot. This is representative of units in the higher density new projects listed in Table 6 in the previous section. The average rents for new buildings in Paine Field and Silver Lake are representative of the rents in the lower density new buildings shown in Table 6.

Table 9
Apartment Vacancy and Rents
Everett Market Area Spring 2011

All Units

	All	Studio	1 Bed	2/1 Ba	2/2 Ba	3/2 ba
Vacancy						
Snohomish County	4.4%	4.7%	5.2%	3.9%	4.1%	4.4%
Central Everett	4.8%	0.0%	6.3%	3.9%	4.5%	3.9%
Paine Field	4.7%	5.4%	5.3%	3.5%	4.2%	6.8%
Silver Lake	4.4%	4.2%	5.6%	3.5%	4.2%	4.1%
Actual Rent						
Snohomish County	$879	$635	$759	$834	$975	$1,163
Central Everett	799	901	752	783	1,135	950
Paine Field	836	565	723	797	961	1,165
Silver Lake	857	607	738	812	912	1,084
Rent/NRSF						
Snohomish County	$1.00	$1.28	$1.10	$0.94	$0.96	$0.96
Central Everett	1.04	1.67	1.18	0.95	1.05	0.91
Paine Field	0.98	1.14	1.04	0.92	0.96	0.95
Silver Lake	0.95	1.37	1.09	0.93	0.91	0.91

Units Built 2000 and Newer

	All	Studio	1 Bed	2/1 Ba	2/2 Ba	3/2 ba
Vacancy						
Snohomish County	4.6%	3.9%	4.8%	4.8%	4.2%	5.4%
Central Everett*	4.5%	0.0%	0.0%		7.1%	
Mountlake Terrace						
Paine Field	4.6%	5.0%	4.9%	1.1%	5.0%	4.2%
Silver Lake	5.9%		4.8%	7.7%	5.6%	7.4%
Actual Rent						
	All	**Studio**	**1 Bed**	**2/1 Ba**	**2/2 Ba**	**3/2 ba**
Snohomish County	$1,047	$627	$889	$995	$1,127	$1,381
Central Everett*	1,326	942	1,270		1,765	
Paine Field	942	580	828	1,002	1,115	1,411
Silver Lake	915		772	854	931	1,125
Rent/NRSF						
	All	**Studio**	**1 Bed**	**2/1 Ba**	**2/2 Ba**	**3/2 ba**
Snohomish County	$1.07	$1.18	$1.18	$1.05	$1.01	$1.02
Central Everett*	1.68	1.73	1.72		1.57	
Paine Field	1.08	1.13	1.12	1.06	1.04	1.08
Silver Lake	0.93		1.02	0.93	0.92	0.90

* 2008 and newer

Source: Dupre and Scott, *Apartment Vacancy Report, Spring 2011*

MARKET OPPORTUNITY

The multifamily rental market is strong at the present time and should improve with an economic recovery in the region. Prevailing market rents are near the thresholds for feasible development in some areas of the city. The opportunities for higher density new development that might benefit from TDR's are sites that offer unique and scarce features, thus justifying a cost premium; and in zones where existing development is at allowable maximum densities. These opportunities fall into two broad categories:

HIGH AMENITY SETTINGS

Such settings offer water and/or mountain views, proximity to public and commercial services, and an attractive streetscape and surrounding development. Such settings could accommodate single-purpose residential or mixed-use buildup. Downtown qualifies for the category; however, given the lack of density and height restrictions, there is no economic incentive for a developer to purchase development rights in the area.

Areas on the periphery of Downtown and elsewhere in zones other than the B-3 and R-5 zones could attract higher-density development. R-3 and R-4 zones in areas with views and attractive settings should be considered.

TRANSIT CORRIDORS

The major transit corridors offer the potential to provide higher-density development, while taking advantage of the excellent public transportation. In particular, the R-2 and R-3 zones west and east of Evergreen Way could accommodate increased density as the nodes on the corridor itself experience even greater density. In particular, R-2 zones along the corridor could allow townhomes at densities comparable to R-2A. The C-2ES zone at the Everett Station is an obvious candidate as well.

RETAIL MARKET OPPORTUNITIES

Retail is a common ground floor use in a mixed-use building. Retail market conditions can affect the feasibility of development of a mixed-use building, with or without TDR's.

RETAIL TRENDS

Consumer spending has been affected by the current recession. Taxable retail sales trends in Everett and Snohomish County are summarized in Figure 3. Total taxable sales for Everett and the county both peaked in 2007; fell to 2005 levels by 2009; and began to increase again in 2010. The sales trends for retail trade sector only, showed similar patterns, although the changes aren't so dramatic. Declines in sectors such as construction taxable sales pulled down the total figure, without affecting retail trade.

Figure 4 summarizes the changes in taxable sales by sector for retail trade and selected services. The three bars for each sector represent 2005, 2007 and 2010 taxable sales.

Figure 3

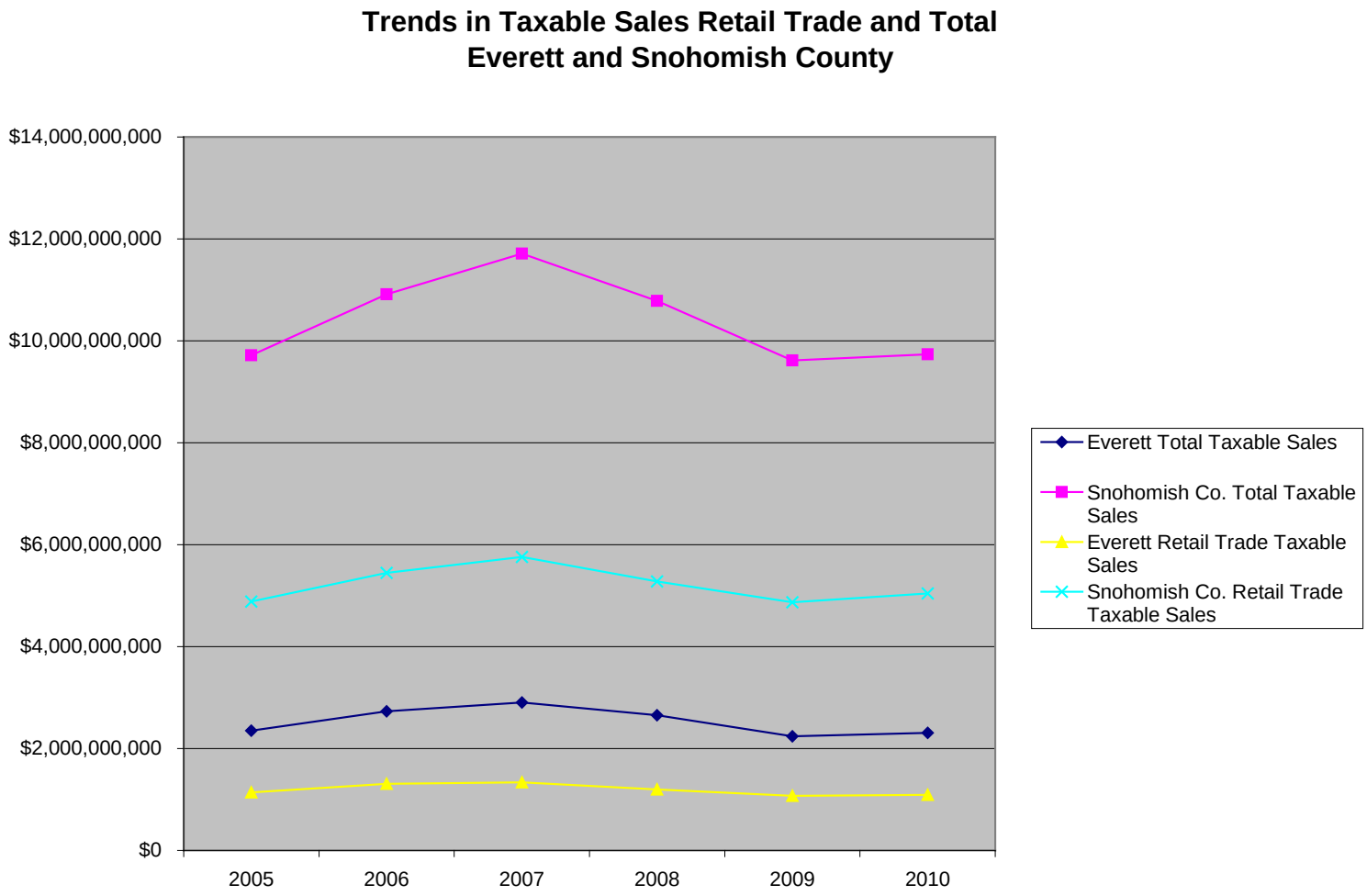
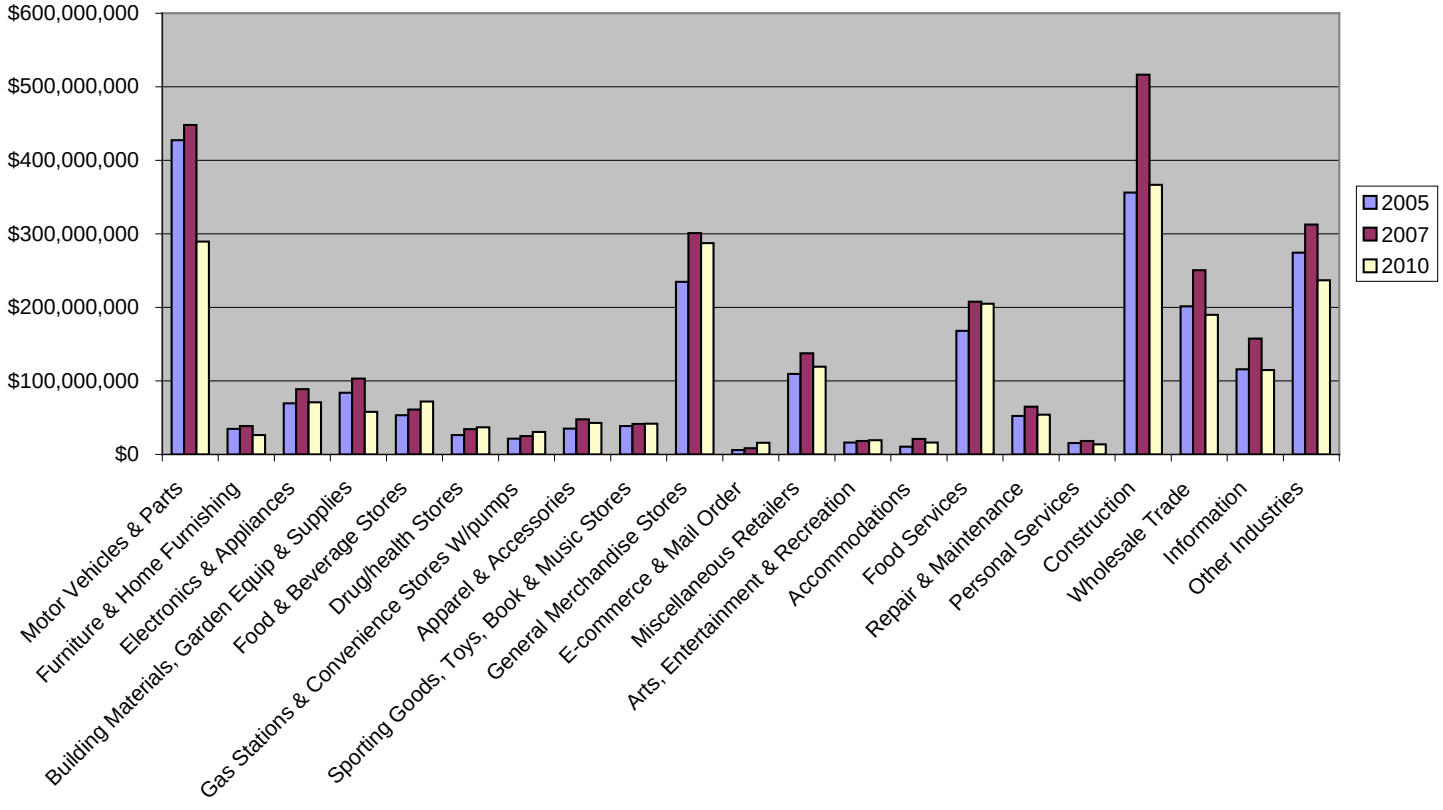

Trends in Taxable Sales Retail Trade and Total
Everett and Snohomish County
$14,000,000,000
$12,000,000,000
$10,000,000,000
$8,000,000,000
$6,000,000,000
$4,000,000,000
$2,000,000,000
$0
2005
2006
2007
2008
2009
2010
Everett Total Taxable Sales
Snohomish Co. Total Taxable Sales
Everett Retail Trade Taxable Sales
Snohomish Co. Retail Trade Taxable Sales

Figure 4

Changes in Everett Taxable Retail Sales by Sector
2005 to 2010



Note that food and beverage sales, drug/health stores, entertainment and gas stations/convenience stores all showed increased sales throughout the period. Food service sales showed only slight decline for 2007 to 2010. These sectors are the major tenant categories in a neighborhood shopping center or convenience center. The outlook for these uses as part of mixed-use development is very positive.

E-commerce and mail order tripled its share of Everett taxable retail trade, but still represented only 1.4%.

MARKET STATISTICS

Market reports for the regional retail market identify slow but steady improvement in absorption, particularly food store-anchored neighborhood centers. According to Kidder Mathew's *Seattle Retail Real Estate Market Review* Third Quarter 2011, rents in the region have declined by 2.2%. Rents in suburban grocery-anchored centers range between $20 and $35/sq.ft./year triple net (tenant pays operating expenses).

Market conditions within Everett and its sub-areas have been derived from data on 149 retail buildings currently for lease, as listed by Officespace.com. The buildings were sorted geographically, and rent and vacancy conditions are summarized in Table 10.

Table 10
Everett Retail Market
Vacancy and Rental Rate Summary

		Rental Rates	
	Vacant Space	**Range**	**Median**
Downtown	122,072	$6 to $22	$14.00
Evergreen Way North	81,399	$8 to $22	$13.00
Evergreen Way South	116,688	$12 to $25	$15.00
Everett Mall Area	200,212	$12 to $30	$17.00
Broadway	41,927	$6 to $15	$11.00
19th Ave. SE	22,871	$12 to $19	$18.00
SW 128th St.	29,885	$13 to $30	$16.00
Total	615,054		

Source: Officespace.com, Property Counselors

As shown, the area with the most vacant space is the Everett Mall area, followed by Downtown and Evergreen Way South (south of Casino Road). Rental rates are as high as $30 per square foot per year in the Everett Mall area and at SE 128th, but median rents vary by area from $11 to $18. Asking rents for the mixed-use building Potala Village in Downtown are $22 per square foot.

MARKET OPPORTUNITY

The outlook for retail is positive particularly for neighborhood and convenience retail. Such tenants are often found in mixed-use buildings. Prevailing rental rates are low compared to the region as a whole, and will be a factor in the overall feasibility of mixed-use development. The geographic areas identified as opportunities for residential development, also have established retail concentrations (other than the R-2 areas that are beyond walking distance of most of the nodes along transportation corridors), and are suitable sites for retail in a mixed use building.

OFFICE MARKET OPPORTUNITIES

Office is also a potential use within a mixed-use project. The typical office uses are local-serving businesses with on-site interaction with the public on the ground floor, and/or general office uses on one or more upper floors.

OFFICE EMPLOYMENT TRENDS

Office employment is a subset of total jobs. Trends in employment in Everett in total employment and office-using employment are summarized in Figure 5. Data at the City level are provided by Puget Sound Regional Council and include all covered employment (excludes officers and self-employed). The office-using sectors are assumed to include:

Information

Finance and Insurance

Real Estate Rental/Leasing

Professional, Scientific & Technical

Management of Companies and Enterprises

Administrative and Support and Waste Management

Health Care and Social Assistance

While total employment has behaved in a cyclical fashion, office-using employment has been stable or increasing.

MARKET STATISTICS

Office market conditions in the region are generally shown to be improving by most market reports. Table 11 provides a snapshot of market conditions for Second Quarter 2011 as compiled by Cushman and Wakefield.

Figure 5

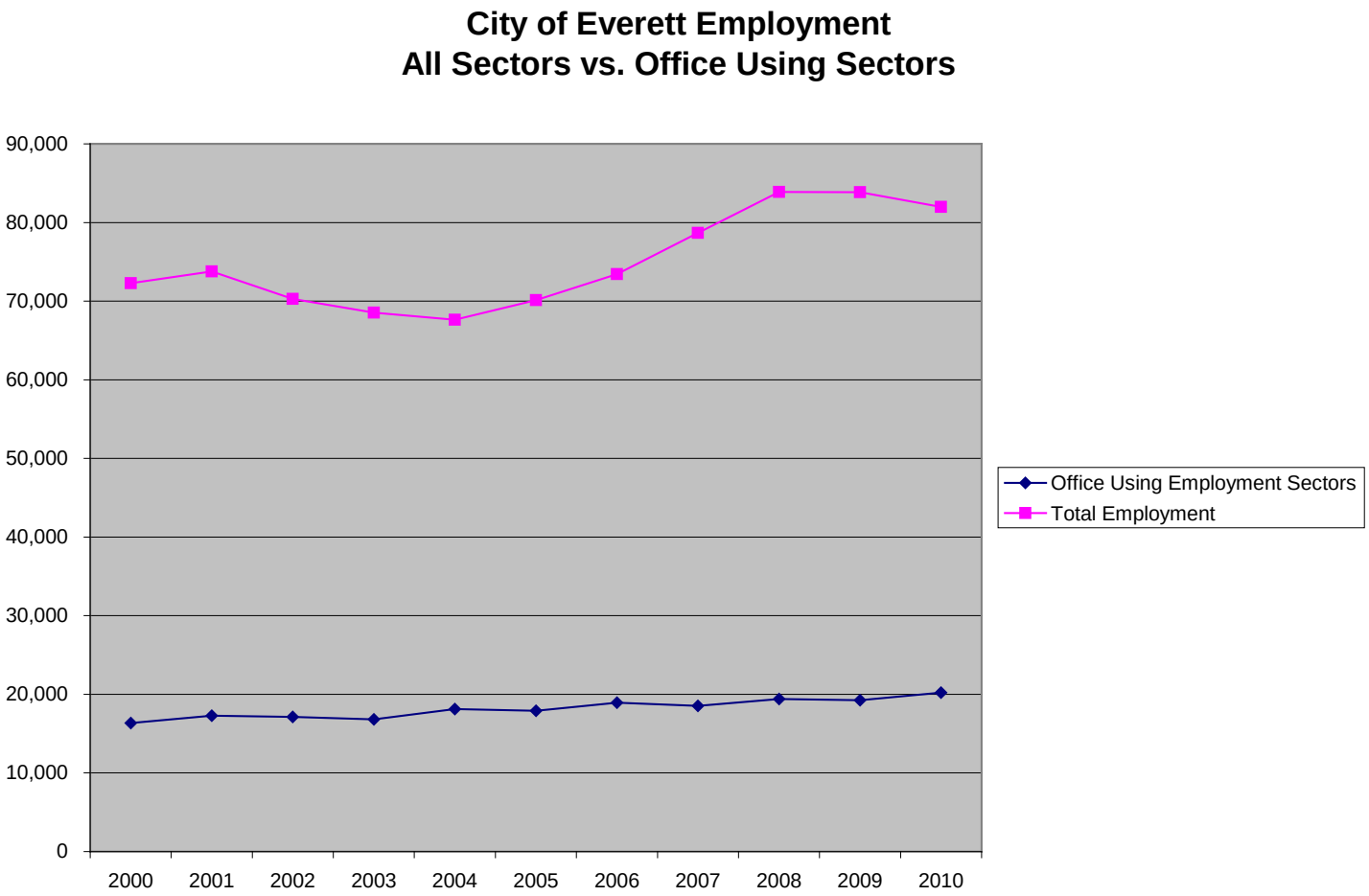

City of Everett Employment
All Sectors vs. Office Using Sectors
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Office Using Employment Sectors
Total Employment

Table 11
Office Market Conditions
Bellevue and Seattle Markets

	Inventory	Current Vacancy	YTD Leasing	Average Rent
Seattle CBD	41,749,488	18.7%	3,089,465	$27.35
Seattle In-City	3,366,628	20.8	80,025	21.71
Seattle Southend/Federal Way	11,147,984	25.5	565,226	19.41
Northend	3,625,547	20.7	113,097	22.13
Eastside	22,506,846	15.2	957,377	27.39
Total	87,446,493	19.1	3,805,190	25,42
Everett	1,335,655	10.4%	2,358	$20.53

Source: Cushman and Wakefield, *Seattle Office Market Report, 2011, Bellevue Office Market Report, 2011*

Vacancy rates are high by historical standards, but they are dropping in sub-markets other than the Northend (Snohomish County). The Northend vacancy rate is 20.7%, slightly above the rate for the region as a whole. Within the Northend market, Everett has a significantly lower vacancy at 10.4%. The weighted average rent in Everett is lower than either the Northend Market or the total region.

Market conditions within Everett and its sub-markets have been derived from data on 228 office buildings currently for lease, as listed by Officespace.com. The buildings were sorted geographically and rent and vacancy conditions are summarized in Table 12. It should be noted that there is overlap among the buildings in Table 10 and 12. Many buildings are suitable for, and marketed to, both retail and office tenants.

Table 12
Everett Office Market
Vacancy and Rental Rate Summary

		Rental Rates	
	Vacant Space	Range	Median
Downtown	234,912	$6 to $23	$14.00
Evergreen Way Nort	31,019	$10 to $20	$12.00
Evergreen Way Sout	47,194	$13 to $18	$14.00
Everett Mall Area	292,109	$10 to $22	$14.00
Broadway	35,008	$7 to $24	$10.00
19th Ave. SE	50,530	$12 to $20	$18.00
SW 128th St.	59,004	$9 to $20	$12.00
Paine Field	424,462	$10 to $26	$12.00
Total	1,174,238		

Source: Officespace.com, Property Counselors

As shown, the area with the most vacant space is the Everett Mall area, followed by Downtown. Retail rates are as high as $26 in some buildings, but generally quite low at $10 to $18 per square foot.

MARKET OPPORTUNITY

General purpose office is not a strong candidate use for a mixed-use residential building, because the amount of upper level floor area is limited, and there are few mutual benefits between residential and office uses. An office user with extensive interaction with the public would be a candidate for ground floor space; such a user would be equivalent to a retail tenant.

LAND MARKET CONSIDERATIONS

Land values are an important consideration in this study for several reasons:

- Changes in land price reflect changes in demand for various land uses.
- Land price is often closely related to allowable housing density in residentially-zoned areas.
- Land price is an input to any feasibility analysis for proposed development.

Asking price data for several existing parcels compiled by Officespace.com are shown in Table 13. Prices by zone are discussed below.

R-3. Asking prices varied from $13 to $25 per square foot. The actual prices paid for land in the recent projects in Table 3 varied from $8 to $29 per square foot. The current assessed value of those parcels varies from $12 to $26.

R-4 and R-5. The only parcel for sale on the list has an asking price of $77.89. Actual prices paid for projects in Table 3 varied from $12 to $27, and the current assessed value of those parcels varies from $19 to $40.

B-1 and B-2. The two parcels for sale have asking prices of $7 for B-1 and $69 for B-2. Actual prices paid for recent projects were $15 per square foot, while the current assessed land value for those parcels varied from $15 to $20 per square foot.

B-3. The two B-3 parcels have asking prices of $89 to $102. Actual prices paid for recent projects varied from $42 to $86, while the current assessed land sale for those parcels is $44 to $50.

BMU. The five BMU parcels for sale vary in asking price from $32 to $71. The actual price paid for recent development was $42 per square foot and the current assessed land value of those parcels is $28.

C-1 and C-2. The six parcels have asking prices varying from $20 to $65 per square foot. The assessed land value for one of the completed projects is $14 per square foot.

Table 13
Land for Sale in Everett
Asking Prices for Selected Parcels

		Zoning	Price	Land Sq. ft.	Price / sq. ft.
1	10825 Evergreen	C-1	$5,900,000	182,516	$32.33
2	3207 Pacific	C-2	5,052,960	252,648	20.00
3	7828 Broadway	R-3	4,990,900	367,211	13.59
4	6001 36 Ave. W	M-M	4,935,000	1,568,160	3.15
5	11323 Hwy 99	CG	4,400,000	140,263	31.37
6	2611 Rockefeller	R-5	3,800,000	48,787	77.89
7	12121 Hwy 99	CG	3,650,000	148,104	24.64
8	420 92nd SE	R-3	3,480,000	261,360	13.31
9	7500 Hardeson	M-M	2,775,000	687,377	4.04
10	8830 Evergreen Way	C-1	2,450,000	104,980	23.34
11	2940 W. Marine View Dr.	B-3	2,450,000	23,958	102.26
12	3204 Broadway	BMU	1,950,000	28,875	67.53
13	2207 Everett Ave.	C-1	2,200,000	33,976	64.75
14	0 80th	M-M	1,960,000	449,119	4.36
15	11116 4th Ave. W.	N-B	1,695,000	95,239	17.80
16	1115 N. Broadway	B-2	1,600,000	23,087	69.30
17	1212 Hewitt Ave.	B-3	1,300,000	14,396	90.30
18	9701 Evergreen Way	C-1	1,100,000	33,106	33.23
19	2202 Broadway	BMU	1,010,000	15,245	66.25
20	3213 Rucker	R-5	975,000	18,295	53.29
21	903 W. Casino Rd.	B-1	895,000	132,422	6.76
22	2202 Broadway	BMU	870,000	12,196	71.33
23	7500 Hardeson	C-2	815,000	35,284	23.10
24	2328 Gibson Rd.	GC	799,900	169,448	4.72
25	11107 Airport Rd.	M-M	795,000	96,703	8.22
26	3127 Grand Ave.	R-3	750,000	30,492	24.60
27	10927 Hwy. 99	CG	589,500	40,511	14.55
28	3400 Broadway	BMU	395,000	12,196	32.39
29	10209 32nd Ave. W.	M-M	375,000	60,112	6.24
30	0 35 Ave. NE	M-2	350,000	35,719	9.80
31	16107 Hwy. 99	CG	315,000	16,553	19.03
32	12214 51Ave SE		250,000	43,560	5.74
33	9800 1st Ave. SE	R-1	200,000	55,321	3.62
34	2620 Grand Ave.	R-5	145,000	6,098	23.78
35	2210 Broadway	BMU	140,000	3,049	45.92

Source: Officespace.com

This experience supports the following findings:

1. There is wide variation among values. Asking prices reflect seller expectations and may differ from market value. Actual prices paid for the land for recently-developed projects reflect transactions that may have occurred ten years or more earlier, and may not reflect the current market. Assessed values are intended to reflect market values, but often lag market value and tend to dampen the year-to-year variations.

2. For purposes of considering the relationship between land value and allowable density, the following values are used as averages derived from the various pieces of data:

R-3	$20 per square foot
R-4	40
R-5	60
B-2	20
B-3	60
BMU	60
C-1	30
C-2	20

3. Given these values and the allowable densities on each zone, the land value per allowable unit would vary as follows:

	Allowable Density	**Value/Unit**
R-3	$29 units/acre	$30,000
R-4	58	30,000
R-5	No Limit	N/A
B-2	58	15,000
B-3	No Limit	N/A
BMU	No Limit	N/A
C-1	58	22,500
C-2	58	15,020

4. The high values per allowable unit for R-3 and R-4 suggest that the value of TDR's might be high in those zones. These findings will be tested on the pro-forma analysis for prototypical projects. The lower values per unit for the commercial zones are still high and suggest that TDR's might have value there as well. This finding will also be tested in the pro-forma analysis.

V. TDR SCENARIOS

Based on real estate market opportunities and the characteristics of existing zoning designations, we identified six scenarios with potential for application of a Transfer of Development Rights program. The scenarios are site-specific in most cases, but are intended to be reflective of opportunities throughout a designated zone.

E-1 Mixed Use Overlay Evergreen Way. The proposed Evergreen Way corridor zoning will provide increased density along this major transit corridor. The proposed zoning would allow for 58 dwelling units per acre with additional density allowed in return for transfer of development rights, provision of parking below grade, or permanently reserving units affordable to households with income levels at or below 80% of the area median. The Evergreen Way Corridor study provided examples of potential development at opportunity sites along the corridor. The opportunity site at 42nd Street between Colby and Hoyt is actually outside the final boundaries for the E-1 MUO zone, but is still considered to be a representative scenario for the current study. The concept for the site achieves a density of 102 units per acre. The additional building area beyond the 58 unit per acre base density is considered bonus density for this analysis.

C-2 ES. The land around the Everett Station enjoys access to the same high capacity transit service as the Evergreen Way Corridor. This zone does not currently allow housing other than live-work units or on sites two acres or larger. A change in zoning to allow housing here through transfer of development rights is a logical scenario for this study. The site chosen for the analysis is a 1.8 acre site facing the station across Smith Street. The property was purchased recently, but no plans have been announced at this time. The base case for this analysis is a new office building sized to match the capacity of a ground floor devoted to parking. The TDR scenario would feature 205 housing units, a density of 100 units per acre.

B-2. The B-2 zone allows for a mix of uses including housing at a maximum of 58 units per acre, except for the B-2 zoned area east of Interstate 5 and south of 100th St. SE where the density is limited to 29 units per acre. The B-2 zone along 19th Avenue near Silver Lake provides an attractive location for mixed use development and might support a much higher density than the current base. A developer has assembled a 6.5 acre site with views and access to Silver Lake as well as proximity to a neighborhood shopping center. Our concept for this site features 341 housing units, a density of 52 units per acre, which would be less than the allowable density for the B-2 zone in the all other areas of city. The requirements for structured parking and the irregularly shaped site limit the density under this concept.

R-3. There are many apartment buildings in the R-3 zone that were built in the late 1960's and are approaching the end of their economic life. However, it seldom makes financial sense to demolish a building and replace it at the same density. The maximum density in the R-3 zone is 29 units per acre. A TDR scenario that allows additional density might stimulate redevelopment in these areas. We prepared a concept for a 9.2 acre site off Casino Road behind Fred Meyer. The concept accommodates 558 units, a density of 60 units per acre.

R-2. The R-2 zone allows for attached single family (through clustering) and duplexes on lots greater than 7,500 square feet. With many platted lots in this zone at 6,000 square feet, the opportunity for duplexes is limited. A TDR scenario that allows for duplexes on smaller lots with appropriate design restrictions could be an attractive opportunity. We evaluated a concept with a duplex on a typical 6,000 square foot lot.

R-1. Cottage housing is small single family detached units clustered around a central open space. While the density of cottage housing may be twice that of typical single family zone, the small scale and detached nature makes it compatible with surrounding single family development. Cottage housing is not currently allowed in either the R-2 or R-1 zones. A TDR scenario that offers higher density in the R-1 zone for cottage housing could provide an opportunity for expanded housing options as well as increased density. We prepared a concept for cottage housing on a one-half acre lot on Marilyn Street east of Evergreen Way.

These six scenarios are described in more detail in the remainder of this section.

E-1 MIXED USE OVERLAY SCENARIO

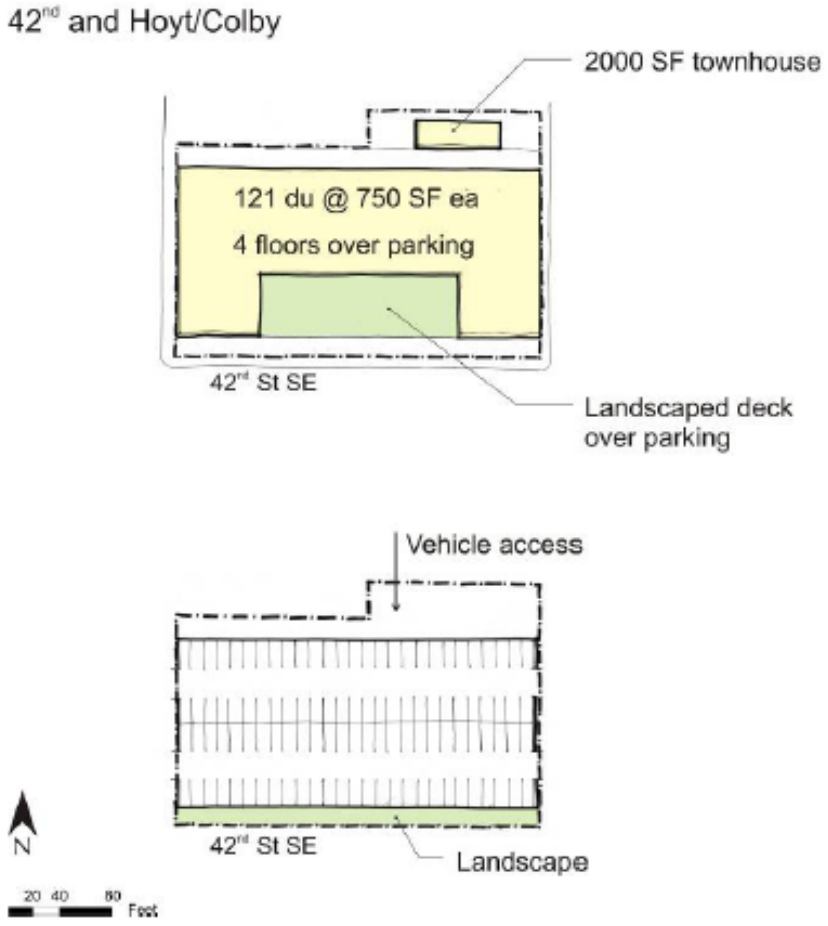
The prototype for the E-1 Mixed Use Overlay (MUO) zone is located between Hoyt and Colby on 42nd St, east of the 41st Street SWIFT stop. The site is actually outside the final E-1 MUO boundaries, but is representative of many opportunities within it. The property consists of several single family lots totaling 1.08 acres assembled by a developer. As shown in Figure 6, the development concept would include ground floor parking with four floors of residential development above. The characteristics of the development can be summarized as follows:

Total Building Area (GSF)	
Residential	106,800
Retail	
Total	106,800
Total Dwelling Units	121
Average Unit Size (NSF)	750
Parking Spaces	
Surface	0
Structured	104
Total	104
Residential Spaces per Unit	.86

The base density allowed in this zone is 58 units per acre. A single purpose building of this density could be developed with two floors of housing over a partial parking level.

Of the total housing units provided in this scenario, 58 would be incremental to the base zoning.

Figure 6.
E-1 Mixed Use Overlay Concept



C-2 ES

The concept for the C-2 ES zone features two buildings with five floors of residential development over two floors of above-grade parking on a 1.8 acre site at 33rd and Smith Street across from the Everett Station. The station is the northern terminus of the Swift transit service and the Sounder commuter rail service; as well as a transfer point for various local and regional bus service. The development concept is shown in Figure 7. Retail is provided at street level on 33rd, a link to the Broadway Mixed Use district to the west. A pedestrian path is provided as an additional east-west connection between the two buildings. The residential development is organized around an upper level courtyard.

Total Building Area (GSF)	
Residential	208,100
Retail	5,800
Total	213,900
Total Dwelling Units	205
Average Unit Size (NSF)	863
Parking Spaces	
Surface	0
Structured	320
Total	320
Residential Spaces per Unit	1.56

For purposes of comparison, a base development concept is identified as a single purpose office building. The building would be sized to match the amount of parking that could be provided on a single parking level at a ratio of 2.0 spaces per 1,000 square feet. This would result in two floors of office space.

Figure 7.
C-2 ES Concept

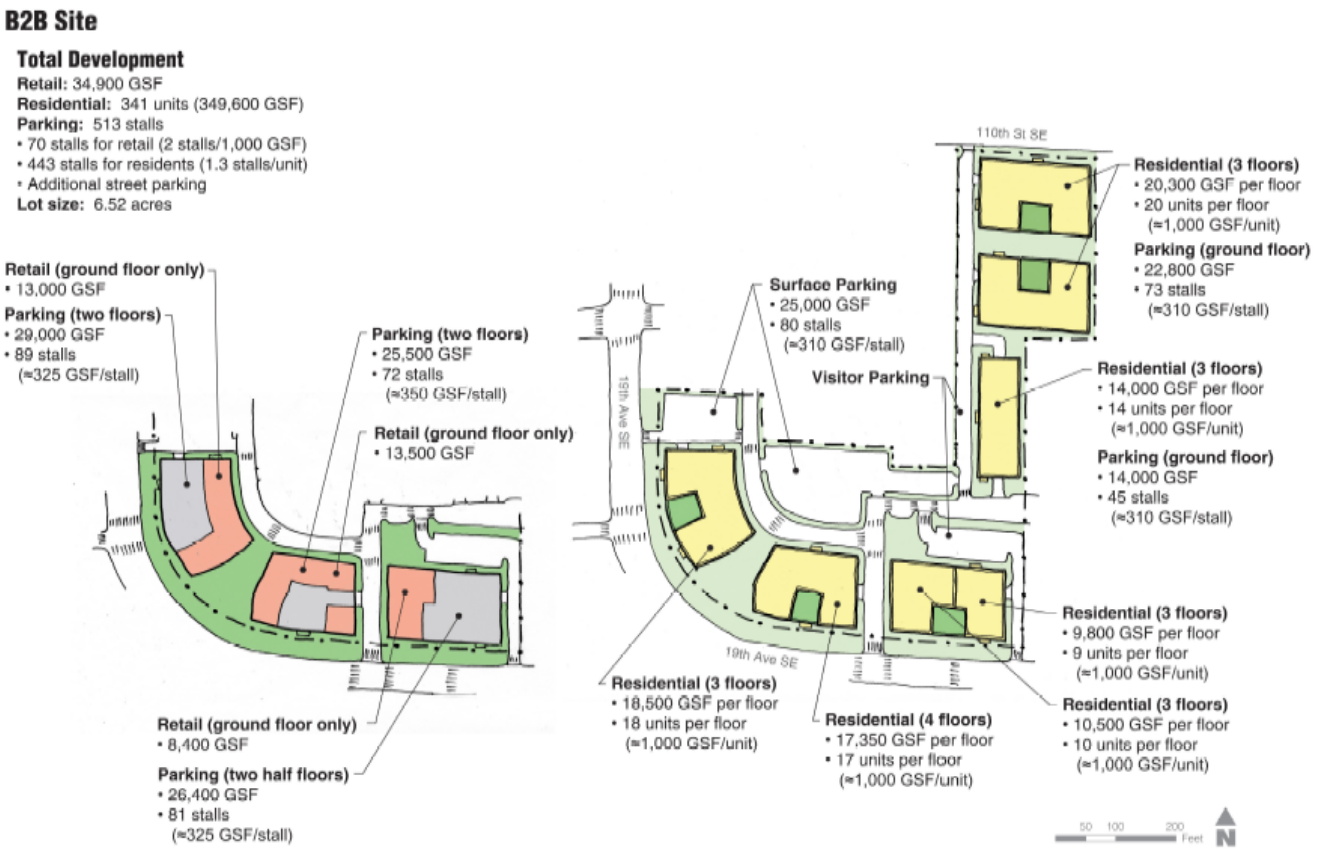
B-2

The B-2 site is located across 19th from Silver Lake, immediately south of the Safeway store. The 6.52 acre site has been assembled by a developer. Our development concept is shown in Figure 8 and features several mixed use buildings with retail oriented toward a central parking lot and two corridors through the site; as well as three single purpose residential buildings on the northern leg of the L-shaped site. There would be two half floors of parking under each mixed use building and three or four floors of residential above. The single purpose residential buildings would have three floors of residential over one floor of parking.

Total Building Area (GSF)	
Residential	349,600
Retail	34,900
Total	384,500
Total Dwelling Units	341
Average Unit Size (NSF)	871
Parking Spaces	
Surface	70
Structured	443
Total	513
Residential Spaces per Unit	1.3

Total residential density is 50 units per acre. Approximately 180 units could be built on the site under current zoning. This density could be accommodated in a modified site plan that eliminates one of the buildings at the back of the site and two buildings along 19th, with the buildings replaced by surface parking.

Figure 8.
B-2 Concept



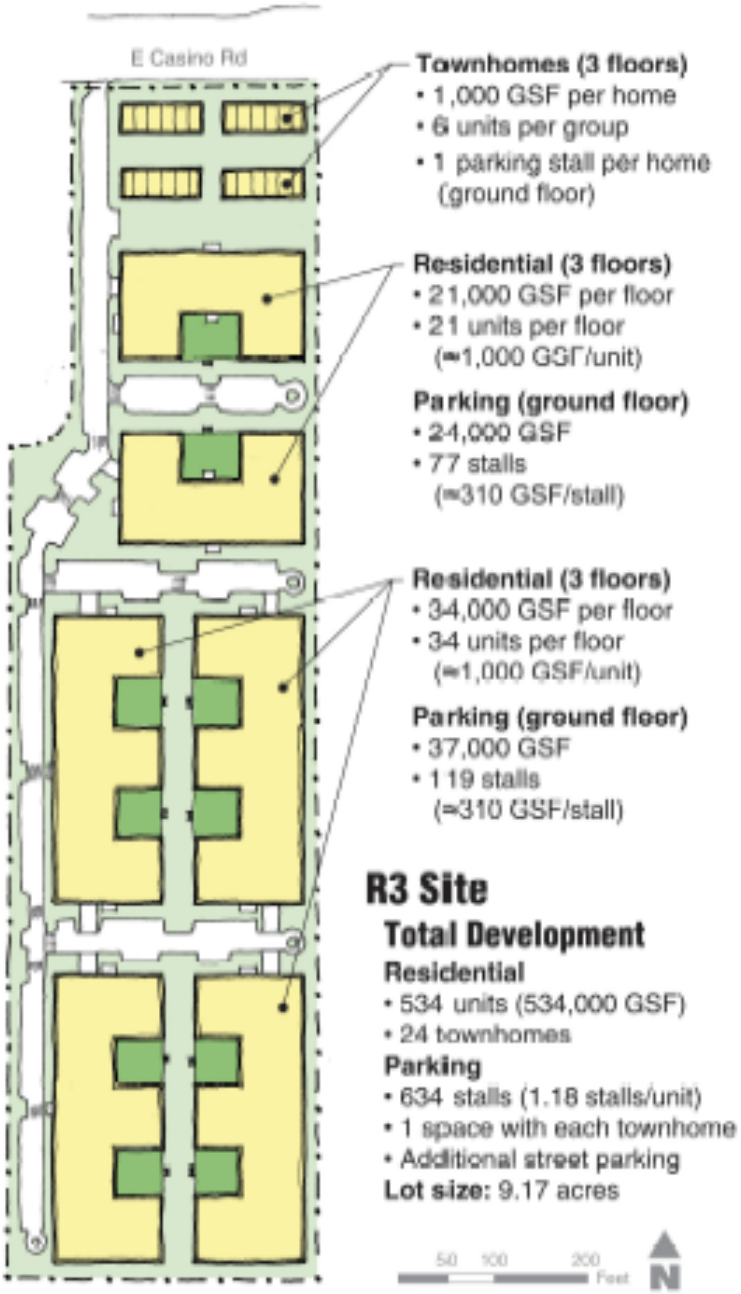
R-3

The R-3 site is 9.2 acres located off Casino Road behind Fred Meyer. With a new pedestrian connection, the site could have improved access to the SWIFT stop on Evergreen Way. The existing three story buildings could be replaced by 24 townhouses at the north end of the site, and six buildings with three floors of residential development over a ground floor of parking. As shown in Figure 9, the larger residential buildings would be U-shaped or E-shaped around upper level courtyards.

Total Building Area (GSF)	
Apartments	534,000
Townhouses	24,000
Total	558,000
Total Dwelling Units	558
Average Unit Size (NSF)	856
Parking Spaces	
Surface	0
Structured	630
Total	630
Residential Spaces per Unit	1.13

If the property were redeveloped under current zoning, one-half the number of residential buildings shown in Figure 9 could be developed, with the remaining area devoted to surface parking, thereby eliminating the need for structured parking.

Figure 9.
R-3 Concept

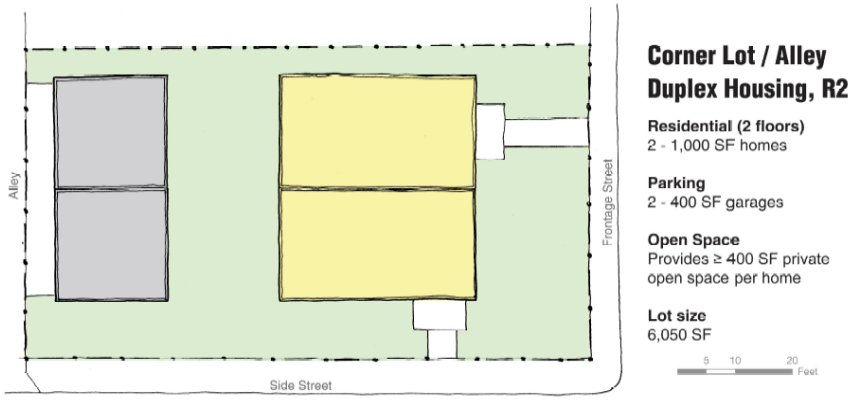


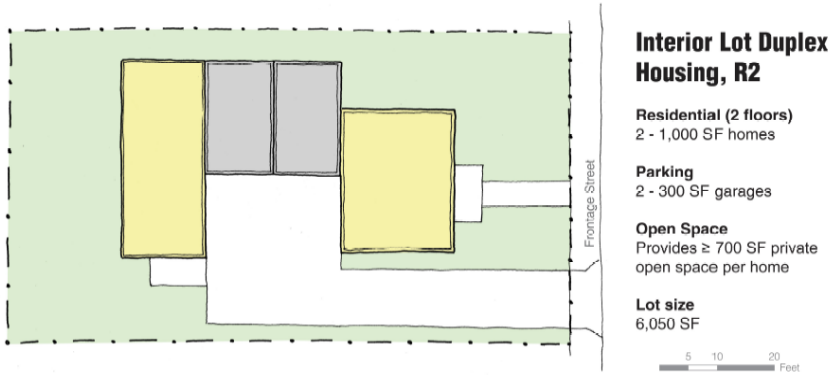
R-2

The R-2 site is a hypothetical 6,050 square foot site lot. While the lot is too small for a duplex under current zoning, it could easily accommodate two 1,000 to 1,200 square foot attached units with garages. Figure 10 illustrates the configuration for either an interior or corner lot.

Total Building Area (GSF)	
Residential	2,400
Retail	
Total	2,400
Total Dwelling Units	2
Average Unit Size (NSF)	1,200
Parking Spaces	
Surface	0
Structured	2
Total	2
Residential Spaces per Unit	1.0

Figure 10.
R-2 Concept



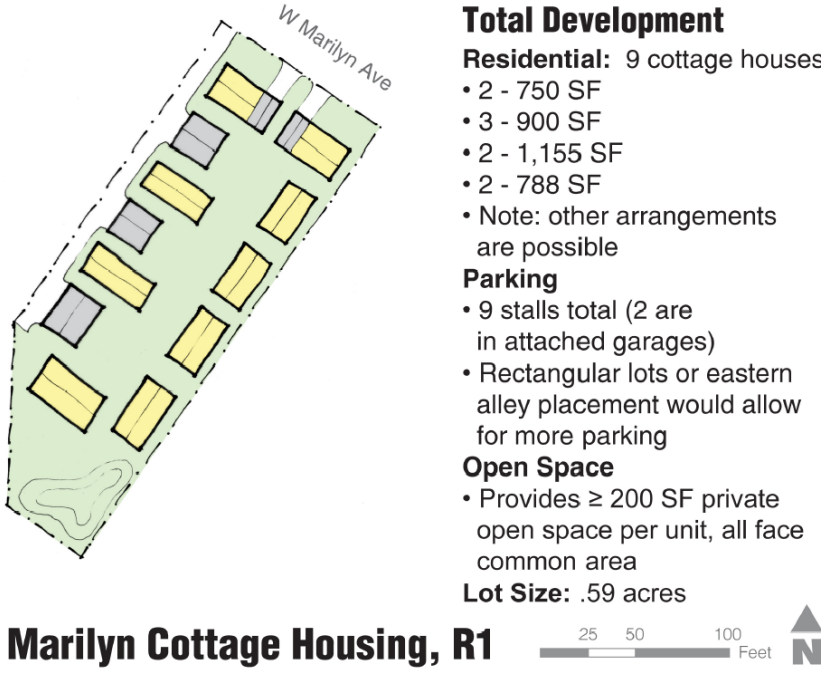


R-1

The R-1 site is an existing platted lot on Marilyn St. off Evergreen Way. The development concept calls for nine cottages around a central courtyard, with individual garages along an alley, as shown in Figure 11. The layout is similar to the Third Street Cottages in Langley WA.

Total Building Area (GSF)	
Residential	8,056
Retail	
Total	8,056
Total Dwelling Units	9
Average Unit Size (NSF)	898
Parking Spaces	
Surface	0
Structured	9
Total	9
Residential Spaces per Unit	1.0

Figure 11.
R-1 Concept



SUMMARY

The characteristics of the six scenarios are summarized in Table 14.

Table 14
Summary of TDR Scenarios

	E-1 MUO	C-2 ES	B-2	R-3	R-2	R-1
Site Area (acres)	1.08	1.87	6.52	9.17	0.14	0.59
Gross Building Area (SF)						
Residential	106,800	208,100	349,600	558,000	2,400	8,086
Commercial	-	5,800	34,900			
Subtotal	106,800	213,900	384,500	558,000	2,400	8,086
Residential Units						
Total Units	121	205	341	558	2	9
Parking Spaces						
Surface	-	-	70	-		
Structure	104	320	443	630	2	9
Subtotal	104	320	513	630	2	9
Residential Spaces per Unit	0.86	1.56	1.30	1.13	1.00	1.00
Density						
Assumed	112.3	109.6	52.3	60.9	14.4	15.3
Current Maximum	58.0	-	29.0	29.0	7.2	1.7
Transfer Bonus						
Dwelling Units	58	205	152	292	1	8
Building Area	51,617	208,100	155,752	294,287	1,200	7,188

VI. FEASIBILITY ANALYSIS

The success of a TDR program is based on the existence of willing buyers and sellers, which in turn is based on perceived value at each end of the transaction. The financial analysis of a potential TDR program in Everett addresses the issue of whether there is value at the receiving end. Further, the financial analysis is intended to answer the questions of whether the TDR bonus scenarios are feasible, whether there is an incentive to purchase development rights to achieve the bonus density, and the appropriate value to place on development rights. A base case and three bonus cases are considered for each zoning scenario. The base case represents potential development under current zoning. The bonus cases represent:

- Bonus development without charge for development rights.
- Bonus development with charge for development rights.
- Bonus development with charge for development rights and application of Multifamily Tax Exemption Program (MFTE).

While the MFTE program is not currently available in these areas under current policy, it is a tool that could be extended and would provide a significant enhancement to feasibility. The program is limited to buildings with 4 or more units, so it is not considered for the R-1 and R-2 scenarios.

METHOD AND ASSUMPTIONS

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the value of the completed development for any project to its cost of development. In the case of a single family or townhome development, the value is calculated as the net proceeds from sale of units. In the case of apartments and commercial, the value is calculated as the capitalized value of the annual income stream. The difference between the value and the development cost is the entrepreneurial return to the developer. The return can be expressed as a percentage of development cost. A rate of 10% is considered a minimum threshold for feasibility.

Development cost is calculated as the sum of land acquisition, building construction, and soft costs. Development costs are expressed in today's dollars, as if the development proceeds immediately. Rent levels and sales prices are assumed for a future stabilized year, approximately three years in the future to allow for construction and lease-up. Development costs assume land acquisition at current prices for the underlying zoning.

The primary assumptions in the analysis are summarized in Table 15 on page 52. Operating expenses reflect gross leases (landlord pays expenses) for residential uses,

while commercial expenses are net (tenant pays expenses). The rents for apartments are assumed at $1.70 per square foot per month for the mixed use apartments. This rate is comparable to current rates for projects in Downtown Everett, but would likely be less than those rents by the stabilized year. Rental rates for retail and office space are assumed at $25 per square foot per year.

The assumptions reflect current construction costs. Land prices are assumed at prices varying from $7.50 to $20 per square foot depending upon the underlying zoning. An assumption is shown for the purchase price for development rights in terms of dollars per square foot of bonus area. The assumption is equivalent to $15,000 per sending unit with 7.5 receiving units per sending unit. The appropriate rate will be considered according to the results of the feasibility analysis.

RESULTS

The results of the analysis for the six scenarios are summarized in Figure 12, and described in detail on the pages that follow.

Figure 12.
Summary of Financial Results

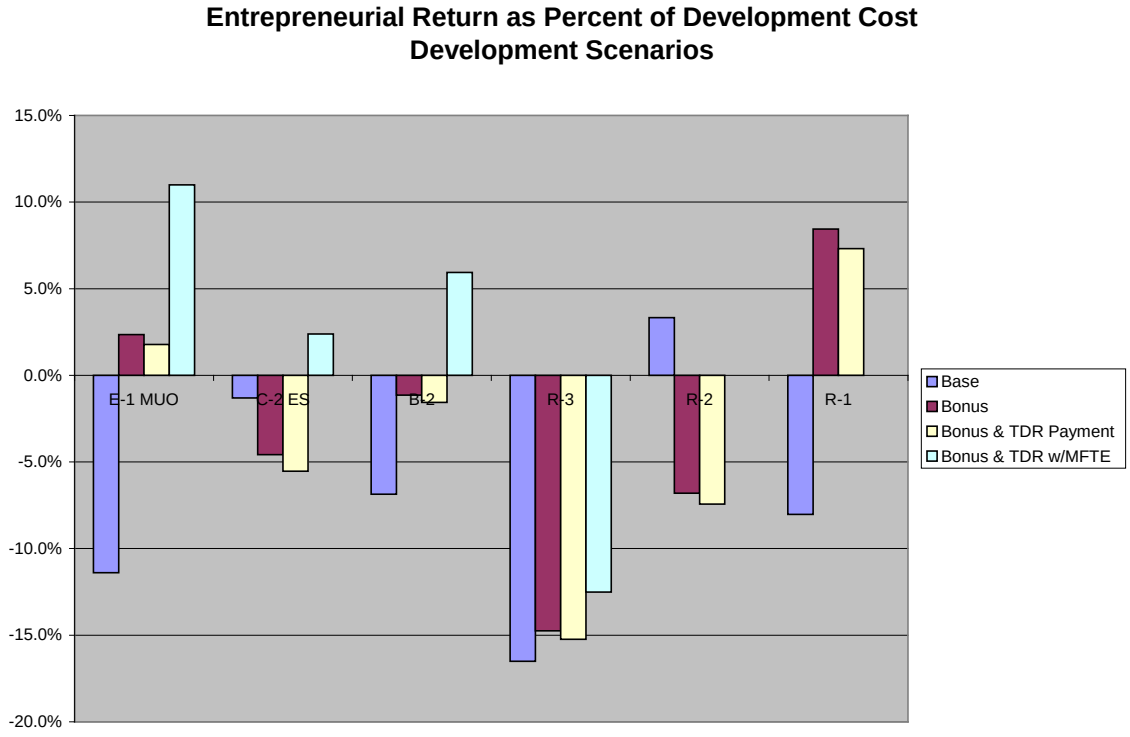


Table 15
Summary of Key Assumptions

	Mixed Use Apartment		Garden Apartment		Townhome		Cottage		Single Family			
	Affordable	Market	Affordable	Market	Affordable	Market	Affordable	Market	Affordable	Market	Office	Retail
DEVELOPMENT COST ASSUMPTIONS												
Land Acquisition ($/SF)	20.00	20.00	20.00	20.00	15.00	15.00	7.50	7.50	7.50	7.50	20.00	20.00
TDR Purchase ($/GSF)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Site Development												
Demolition/Site Preparation	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	2.00	2.00	5.00	5.00
Surface Parking (/space)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Building Construction ($/GSF)												
Shell	110.00	110.00	100.00	100.00	75.00	75.00	100.00	100.00	70.00	70.00	160.00	95.00
Tenant Improvements											20.00	10.00
Total	110.00	110.00	100.00	100.00	75.00	75.00					180.00	105.00
Deck Structure ($/Space)	17,500	17,500	17,500	17,500							17,500	17,500
Aboveground Structure ($/Space)	21,000	21,000	21,000	21,000							21,000	21,000
Soft Costs (% of construction Cost	28.0%	28.0%	28.0%	28.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	28.0%	28.0%
INCOME ASSUMPTIONS												
Rents ($/nsf/yr.)	20.40	20.40	18.50	18.50							25.00	25.00
Expenses ($/nsf/yr)	7.70	7.70	7.00	7.00							1.00	1.00
Expenses under MFTE ($/nsf/yr)	6.58	6.58	5.88	5.88								
Vacancy Rate	5.0%	5.0%	5.0%	5.0%							5.0%	5.0%
Parking Net Revenue ($/space/mo.)	50.00	50.00			-	-					75.00	-
Sales Price ($/nsf)					150.00	150.00	200.00	200.00	200.00	200.00		
Sales Price ($/nsf) with tax exemption.					162.50	162.50						
Cost of Sales (% of Sales)					8.0%	8.0%	8.0%	8.0%	8.0%	8.0%		
Capitalization Rate	6.00%	6.00%	6.00%	6.00%							7.50%	7.50%

RESULTS FOR E-1 MIXED USE OVERLAY

The results of the financial analysis are summarized in Table 16 for each of the four cases in terms of:

Entrepreneurial return as percent of development cost,

Necessary conditions for feasibility, and

Comparison of cost and value on per unit basis.

The only case that meets the target 10% entrepreneurial return target is the bonus case with the multifamily tax exemption. The two bonus cases without the exemptions achieve positive returns, but the returns fall short of the 10% rate. The bonus case with the TDR payment performs slightly less well than the comparable case without a payment. The reduced expenses under the tax exemption case more than offset the impact of the TDR payment. The base case is not feasible under the stated assumptions. Given the lower assumed rents, and a similar cost structure to the bonus cases, the development costs exceed the value of the completed project.

Even some cases that don't achieve the target return could approach it with realistic increases in rent levels. The necessary rents for the bonus cases are only 5% greater than the assumed rents. They could easily be achieved by the stabilized year in a strong market. The base case would require a reduction in development cost to achieve feasibility. The parking assumed in this case is more costly than the rents can support.

The relationship between cost and value is clear. The base case has the lowest value because of the lower assumed rents. The bonus cases without the tax exemption achieve higher values because of higher assumed rents. The bonus case with tax exemption achieves the highest value because of the higher rents and lower expenses. On the development cost side, the total cost per unit is similar across cases. The construction cost per unit for the bonus cases is somewhat higher than the base case, but the cost per unit for land and development rights is half as much. The cost of land and development rights is highest for the development rights purchase cases.

The overall result is that the bonus development can't support a charge for development rights without the tax exemption, but bonus development and the tax exemption program could support a charge greater than the assumed charge.

Table 16
Financial Results: E-1 MUO Scenario

	Base	Bonus	Bonus & TDR No MFTE	Bonus & TDR MFTE
Description				
Site Area (SF)	46,970	46,970	46,970	46,970
Gross Building Area (SF)				
Residential	55,271	106,800	106,800	106,800
Commercial	-	-	-	-
Residential Units	63	121	121	121
Parking Spaces	63	104	104	104
Estimated Capital Investment				
Land Acquisition and TDR's	$563,640	$563,640	$666,874	$666,874
Construction	6,864,450	13,802,850	13,802,850	13,802,850
Soft Costs	1,916,329	3,915,057	3,915,057	3,915,057
Total	$9,344,419	$18,281,547	$18,384,781	$18,384,781
Financial Performance				
Annual Operating Income	$496,817	$1,122,710	$1,122,710	$1,224,384
Capitalized Value and Sales Proceeds	$8,280,287	$18,711,840	$18,711,840	$20,406,400
Entrepreneurial Return	($1,064,132)	$430,293	$327,059	$2,021,619
Return as Percent of Investment	-11.39%	2.35%	1.78%	11.00%
Necessary Condition for 10% Return				
Necessary Apartment Rent (/SF/Yr)	$21.19	$21.37	$21.45	$20.27
Assumed Apartment Rent (/SF/Yr)	$18.50	$20.40	$20.40	$20.40
Value/ Unit	$132,188	$154,592	$154,592	$168,592
Cost/Unit				
Land	$8,998	$4,657	$5,510	$5,510
Constr.	109,585	114,035	114,035	114,035
Soft cost	30,593	32,345	32,345	32,345
Total	149,175	151,037	151,890	151,890

RESULTS FOR C-2 ES

The results of the financial analysis are summarized in Table 17 for each of the four cases in terms of:

Entrepreneurial return as percent of development cost,

Necessary conditions for feasibility, and

Comparison of cost and value on per unit basis.

The only case that achieves a positive entrepreneurial return is the bonus case with the multifamily tax exemption. The two bonus cases without the exemptions achieve negative returns. The bonus case with the TDR payment performs slightly less well than

the comparable case without a payment. The reduced expenses under the tax exemption case more than offset the impact of the TDR payment. The base case is not feasible under the stated assumptions. A new office building at this location wouldn't command sufficient rents to provide a positive return.

Even some cases that don't achieve the target return could approach it with realistic increases in rent levels. The necessary rents for the bonus case with tax exemption are only 6% greater than the assumed rents. They could be achieved by the stabilized year in a strong market. The base case would be feasible with rents 13% higher than assumed.

The relationship between cost and value is clear. The bonus case with tax exemption achieves the highest value because of the high rents and lower expenses. On the development cost side, the total cost per unit is similar across bonus cases. The cost of land and development rights is highest for the development rights purchase case.

The overall result is that the bonus development can't support a charge for development rights. With higher potential rents, the bonus development and the tax exemption program could support the assumed charge.

Table 17
Financial Results: C-2 ES Scenario

	Base	Bonus	Bonus & TDR No MFTE	Bonus & TDR MFTE
Description				
Site Area (SF)	81,457	81,457	81,457	81,457
Gross Building Area (SF)				
Residential	-	208,100	208,100	208,100
Commercial	165,800	5,800	5,800	5,800
Residential Units	-	205	205	205
Parking Spaces	332	332	332	332
Estimated Capital Investment				
Land Acquisition and TDR's	$1,629,140	$1,629,140	$2,045,340	$2,045,340
Construction	36,788,285	30,879,285	30,879,285	30,879,285
Soft Costs	11,512,114	8,774,086	8,774,086	8,774,086
Total	$49,929,539	$41,282,511	$41,698,711	$41,698,711
Financial Performance				
Annual Operating Income	$3,695,950	$2,389,967	$2,389,967	$2,588,078
Capitalized Value and Sales Proceeds	$49,279,333	$39,392,947	$39,392,947	$42,694,800
Entrepreneurial Return	($650,206)	($1,889,565)	($2,305,765)	$996,089
Return as Percent of Investment	-1.30%	-4.58%	-5.53%	2.39%
Necessary Condition for 10% Return				
Necessary Apartment Rent (/SF/Yr)	$28.32	$22.70	$22.86	$21.69
Assumed Apartment Rent (/SF/Yr)	$25.00	$20.40	$20.40	$20.40
Value/ Unit		$183,579	$183,579	$199,685
Cost/Unit				
Land		$7,695	$9,725	$9,725
Constr.		146,368	146,368	146,368
Soft cost		41,403	41,403	41,403
Total		195,465	197,495	197,495

RESULTS FOR B-2

The results of the financial analysis are summarized in Table 18 for the bonus case and bonus case with tax exemption:

Entrepreneurial return as percent of development cost,

Necessary conditions for feasibility, and

Comparison of cost and value on per unit basis.

The only case that achieves a positive entrepreneurial return is the bonus case with the multifamily tax exemption. The two bonus cases without the exemptions achieve small negative returns. The bonus case with the TDR payment performs slightly less well than

the comparable case without a payment. The reduced expenses under the tax exemption case more than offset the impact of the TDR payment.

Even some cases that don't achieve the target return could approach it with realistic increases in rent levels. The necessary rents for the bonus case with tax exemption are only 7.5% greater than the assumed rents. They could be achieved by the stabilized year in a strong market. The base case would require a reduction in development cost to be feasible.

The relationship between cost and value is clear. The bonus cases without the tax exemption achieve higher values because of higher assumed rents. The bonus case with tax exemption achieves the highest value because of the higher rents and lower expenses. On the development cost side, the total cost per unit is similar across cases. The land component is significantly higher than under the C-2 ES scenario.

Table 18
Financial Results: B-2 Scenario

	Base	Bonus	Bonus & TDR No MFTE	Bonus & TDR MFTE
Description				
Site Area (SF)	284,011	284,011	284,011	284,011
Gross Building Area (SF)				
Residential	172,300	349,600	349,600	349,600
Commercial	34,900	34,900	34,900	34,900
Residential Units	170	341	341	341
Parking Spaces	291	513	513	513
Estimated Capital Investment				
Land Acquisition and TDR's	$5,680,220	$5,680,220	$5,991,724	$5,991,724
Construction	26,097,055	53,018,555	53,018,555	53,018,555
Soft Costs	7,305,652	15,007,576	15,007,576	15,007,576
Total	$39,082,927	$73,706,351	$74,017,855	$74,017,855
Financial Performance				
Annual Operating Income	$2,342,737	$4,530,604	$4,530,604	$4,863,423
Capitalized Value	$36,399,027	$72,863,480	$72,863,480	$78,410,467
Entrepreneurial Return	($2,683,900)	($842,871)	($1,154,375)	$4,392,612
Return as Percent of Investment	-6.87%	-1.14%	-1.56%	5.93%
Necessary Condition for 10% Return				
Necessary Apartment Rent (/SF/Yr)	$22.82	$23.02	$23.09	$21.91
Assumed Apartment Rent (/SF/Yr)	$18.50	$20.40	$20.40	$20.40
Value/ Unit	$151,839	$182,631	$182,631	$198,898
Cost/Unit				
Land	$26,983	$14,907	$15,820	$15,820
Constr.	129,319	143,782	143,782	143,782
Soft cost	35,279	40,174	40,174	40,174
Total	191,581	198,863	199,777	199,777

RESULTS FOR R-3

The results of the financial analysis are summarized in Table 19 for each of the four cases in terms of:

Entrepreneurial return as percent of development cost,

Necessary conditions for feasibility, and

Comparison of cost and value on per unit basis.

None of the cases achieves a positive entrepreneurial return. Even the bonus case with the tax exemption falls short.

None of the cases are likely to achieve the target return with realistic increases in rent levels. The necessary rents for the bonus cases with tax exemption are 20% greater than the assumed rents.

The relationship between cost and value is similar to the other scenarios. All the cases have lower value per unit than the E-1, C-2 ES, and B-2 scenarios. The value for the base case falls short of the development cost because of the lower assumed rents. On the development cost side, the total cost per unit is similar to the other scenarios. The cost per unit for land and development rights is half as much for the bonus cases. The cost of land and development rights is highest for the development rights purchase cases. Overall, the land component is significantly higher than under the C-2 ES scenario.

The overall result is that the bonus development can't support a charge for development rights. Even with higher potential rents, the bonus development and the tax exemption program can't support a charge greater than the assumed charge.

Redevelopment of improved multifamily sites is relatively expensive.

Table 19
Financial Results: R-3 Scenario

	Base	Bonus	Bonus & TDR No MFTE	Bonus & TDR MFTE
Description				
Site Area (SF)	399,445	399,445	399,445	399,445
Gross Building Area (SF)				
Residential	267,000	534,000	534,000	534,000
Commercial	-	-	-	-
Residential Units	291	558	558	558
Parking Spaces	317	630	630	630
Estimated Capital Investment				
Land Acquisition and TDR's	$7,988,900	$7,988,900	$8,577,474	$8,577,474
Construction	32,129,725	75,767,225	75,767,225	75,767,225
Soft Costs	8,971,444	21,362,055	21,370,263	21,370,263
Total	$49,090,069	$105,118,180	$105,714,962	$105,714,962
Financial Performance				
Annual Operating Income	$2,260,422	$5,177,993	$5,177,993	$5,368,631
Capitalized Value and Sales Proceeds	40,985,700	89,611,875	89,611,875	92,789,175
Entrepreneurial Return	($8,104,369)	($15,506,305)	($16,103,087)	($13,229,463)
Return as Percent of Investment	-16.51%	-14.75%	-15.23%	-12.51%
Necessary Condition for 10% Return				
Necessary Apartment Rent (/SF/Yr)	$19.93	$22.12	$22.21	$21.77
Assumed Apartment Rent (/SF/Yr)	$16.80	$18.50	$18.50	$18.50
Value/ Unit	$140,844	$160,595	$160,595	$166,289
Cost/Unit				
Land	$27,453	$14,317	$15,372	$15,372
Constr.	110,411	135,784	135,784	135,784
Soft cost	30,830	38,283	38,298	38,298
Total	168,694	188,384	189,453	189,453

RESULTS FOR R-2

The results of the financial analysis are summarized in Table 20 for each of the three cases (no MFTE case) in terms of:

Entrepreneurial return as percent of development cost,

Necessary conditions for feasibility, and

Comparison of cost and value on per unit basis.

The base case achieves a positive entrepreneurial return, but falls short of the required 10% return.

The base case could achieve the target return with realistic increases in price levels. The necessary prices for the base case are 6.5% greater than the assumed prices.

The relationship between cost and value is similar to the other scenarios. All the bonus cases have somewhat higher values per unit than the R-3 scenario, but the total cost per unit is somewhat lower. The cost per unit for land is much lower. The cost per unit for land and development rights is half as much for the bonus cases. The cost of land and development rights is highest for the development rights purchase cases.

The overall result is that the bonus development can't support a charge for development rights. There is no strong incentive to pursue the bonus development.

Table 20
Financial Results: R-2 Scenario

	Base	Bonus	Bonus & TDR No MFTE
Description			
Site Area (SF)	6,050	6,050	6,050
Gross Building Area (SF)			
Residential	1,750	2,400	2,400
Commercial	-	-	-
Residential Units	1	2	2
Parking Spaces	-	-	-
Estimated Capital Investment			
Land Acquisition and TDR's	$60,500	$60,500	$62,900
Construction	161,500	222,250	222,250
Soft Costs	50,687	72,642	72,642
Total	$272,687	$355,392	$357,792
Financial Performance			
Annual Operating Income	$0	$0	$0
Capitalized Value and Sales Proceeds	281,750	331,200	331,200
Entrepreneurial Return	$9,064	($24,192)	($26,592)
Return as Percent of Investment	3.32%	-6.81%	-7.43%
Necessary Condition for 10% Return			
Necessary Sales Price ($/SF)	$186.31	$177.05	$178.25
Assumed Sales Price (/SF)	175.00	150.00	150.00
Value/ Unit	$281,750	$165,600	$165,600
Cost/Unit			
Land	$60,500	$30,250	$31,450
Constr.	161,500	111,125	111,125
Soft cost	50,687	36,321	36,321
Total	272,687	177,696	178,896

RESULTS FOR R-1

The results of the financial analysis are summarized in Table 21 for each of the three cases (no MFTE case) in terms of:

Entrepreneurial return as percent of development cost,

Necessary conditions for feasibility, and

Comparison of cost and value on per unit basis.

All the bonus cases achieve positive returns, although short of the target return rate. This scenario provides a high value product at a significant increase in density

The bonus cases could achieve the target return with realistic increases in price levels. The necessary prices for the bonus cases are only 1% to 3% greater than the assumed prices.

The relationship between cost and value is similar to the other scenarios. The single family unit in the base case is significantly higher in value and cost than the bonus cases. All the bonus cases have similar value per unit as the R-2 scenario. On the development cost side, the total cost per unit is less than in the R-2 scenario because of the smaller units, and the cost per unit for land is much lower. The cost of land and development rights is highest for the development rights purchase cases.

The overall result is that the bonus development without the tax exemption could support a charge for development rights at the assumed level with increased market prices.

Table 21

Financial Results: R-1 Scenario

	Base	Bonus	Bonus & TDR No MFTE
Description			
Site Area (SF)	25,700	25,700	25,700
Gross Building Area (SF)			
Residential	2,300	8,086	8,086
Commercial	-	-	-
Residential Units	1	9	9
Parking Spaces	-	-	-
Estimated Capital Investment			
Land Acquisition and TDR's	$128,500	$128,500	$142,875
Construction	212,400	937,100	937,100
Soft Costs	61,694	306,391	306,391
Total	$402,594	$1,371,991	$1,386,366
Financial Performance			
Annual Operating Income	$0	$0	$0
Capitalized Value and Sales Proceeds	370,300	1,487,824	1,487,824
Entrepreneurial Return	($32,294)	$115,833	$101,458
Return as Percent of Investment	-8.02%	8.44%	7.32%
Necessary Condition for 10% Return			
Necessary Sales Price ($/SF)	$209.29	$202.87	$205.00
Assumed Sales Price (/SF)	175.00	200.00	200.00
Value/ Unit	$370,300	$165,306	$165,306
Cost/Unit			
Land	$128,500	$14,277	$15,874
Constr.	212,400	104,117	104,117
Soft cost	61,694	34,042	34,042
Total	402,594	152,436	154,033

VALUE OF TRANSFERRED DEVELOPMENT RIGHTS

The results of the feasibility analysis provide a basis for drawing conclusions about the value of development rights at the receiving end. The values can be reconciled with values at the sending end through transfer rates – the specified ratio of number of developments rights at the receiving end for each right at the sending end. These relationships are considered in this section in terms of the experience in the region, supportable receiving end values, and supportable transfer rates.

SUPPORTABLE RECEIVING END VALUES

The feasibility analysis described earlier is based on a price per square foot of bonus development of $2.00. This rate is equivalent to a value of $15,000 per unit at the sending end, a transfer rate of 7.5 units at the receiving site for each sending unit, and an average unit size of 1,000 gross square feet. In cases where the projected entrepreneurial return exceeds 10%, a higher price per square foot is supportable. The only case that achieved the target return is the Multifamily Tax Exemption program case for the E-1 MUO scenario. This scenario could support a higher price and still achieve the target return. The higher supportable price is shown in Table 22.

Table 22
Estimated Supportable Development Rights Value
Selected Multifamily Tax Exemption Cases

	E-1 MUO
Projected Return on Cost	11.0%
Additional Development Area (GSF)	166,491
Supportable Price per GSF	$5.23

As explained earlier, there are other cases that would achieve the target return with realistic increases in market rents.

SUPPORTABLE TRANSFER RATES

The higher value for additional development in Table 22 can be expressed as transfer rate. Again, assuming a sending site value of $15,000 per TDR credit and an average unit site of 1,000 gross square feet, the equivalent transfer rates would be 2.9 receiving credits per sending credit for E-1 MUO with tax exemption.

As shown, the supportable transfer rates would be different for different scenarios, and would likely vary over time as well.

CONCLUSIONS

1. The scenarios considered in this study provide logical examples of increased densities in settings with proximity to regional transit service, commercial services, and public amenities.

2. The higher density scenarios achieve improved economic performance in most cases, but fall short of targeted entrepreneurial return of 10%.

3. The cases that show the strongest performance are those that take advantage of the multifamily tax exemption program. The E-1 MUO scenario achieves a rate of return that exceeds 10%.

4. The E-1 MUO scenario benefits from a very low parking ratio, while the R-1 Cottage Housing scenario achieves a large increase in density without requiring expensive construction solution.

5. For many of the other scenarios with the tax exemption program, the target return could be achieved with realistic potential increases in rents beyond assumed levels.

6. Most bonus cases show improved performance over base cases, as the reduced land price per unit and the increased value associated with higher rents, offsets the increased construction cost per unit.

7. The E-1 MUO scenario with the tax exemption is the only case that supports a positive value for the TDR credits. Assuming a sending site value of $15,000 per unit, the equivalent transfer rates would be 2.9 receiving site units per sending site unit.

8. Ultimately it is the multifamily tax exemption program that makes the bonus schemes even marginally feasible. Application of both a TDR and a tax exemption program would have the effect of funding rural land preservation through the foregone tax revenues from the tax exemption, rather than the payments from developers.

VII. COMPATIBILITY, INFRASTRUCTURE NEEDS AND MITIGATION

In addition to providing adequate returns to private developers, a successful TDR program must provide for development that doesn't create unacceptable impacts to the neighborhood around a receiving site. The development should be physically compatible, and not create a burden on existing infrastructure. To the extent that there are impacts, there should be mitigation through expansion of infrastructure, or suitable provisions in development regulations. Regarding infrastructure, there is a new tool available to accommodate density resulting from TDR's: tax increment financing under state legislation ESSB 2993. The viability of this tool and its likely use are considered in this section, together with the issues of compatibility, infrastructure needs, and mitigation.

COMPATIBILITY

New development may be incompatible with existing development if the new development includes different uses or differs significantly in scale. Compatibility measures and considerations for each of the TDR scenarios are described below.

E-1 MUO

The TDR scenario allows for additional density within the current height limits. The allowable uses are the same as under base zoning. Proposed development standards as part of the Evergreen Way Plan for TDR related density bonuses in this zone, require that at least 40% of parking be below grade structured parking. For all new development, the proposed standards include design options that developments must choose from to minimize shade and privacy impacts to adjacent single family zones.

C-1

The TDR scenario allows for additional density within the current height limits. This scenario also proposes the relaxation of current height step-backs on sites adjacent to single family zones. The scenario includes optional ways to mitigate privacy and shade impacts between new development utilizing the TDR density bonuses and adjacent single family zones (see Figures 13 and 14 on pages 74 and 75 at the end of this section). The allowable uses are the same as under base zoning.

C-2 ES

The TDR scenario allows for residential use within the current height limits. Residential uses may create conflicts with existing warehouse and industrial uses. Such businesses often fear that resident complaints about noise and truck traffic might result in restrictions on their operations. Also, in order to attract residential uses to the area, enhanced sidewalks and streetscape improvements that provide strategic connections will be important.

B-2

The TDR scenario allows for additional density within the current height limits and the relaxation of current side and rear yard building height stepbacks adjacent to single family zones. The scenario includes optional ways to mitigate privacy and shade impacts between new development utilizing the TDR density bonuses and adjacent single family zones (see Figures 13 and 14 on pages 74 and 75 at the end of this section). The allowable uses are the same as under base zoning.

R-3

The TDR scenario allows for additional density within the current height limits. The allowable uses are the same as under base zoning. The likely development would be compatible with the existing development, though the overall bulk of development will be greater. Updates to the design guidelines should be considered in conjunction with any density increase. Key design issues include building separation/solar access to dwelling units, internal drive design, usable internal open space, façade articulation, maximum façade width, and landscaping. Also, a maximum floor area ratio standard might be considered in place of a density limit, as a means to limit the building bulk.

R-2

The TDR scenario allows for duplexes on smaller lots than otherwise allowed. Existing design standards for duplexes and small lot development in Chapter 7 of Title 19 will help to ensure that additional density will be similar in scale to surrounding single family units. Existing standards address lot coverage, floor area ratio, building entries and garage location, and required doors and windows that face the street.

R-1

TDR scenario would allow cottage housing at approximately twice the density of typical single family development. The small scale of units and the fact that they are detached should reduce the likelihood that the development would be incompatible with existing development. Proposed standards also feature strict open space, front porch, setbacks, and roofline design provisions.

INFRASTRUCTURE NEEDS

The higher density development under the TDR scenarios may place greater demands on infrastructure, but those demands may not exceed the infrastructure capacity for the foreseeable future. Three categories of infrastructure are considered: streets, utilities and community amenities.

STREETS

The zoning classifications for all the scenarios except R-1 and R-2, are located along primary arterials within the city. The opportunities discussed in Section IV are based on sites with excellent transportation access and proximity to commercial services and public amenities. While locally generated traffic on these streets may increase as a result of additional density, it will likely be much less than existing through-traffic on these routes. Even the increased traffic may be less than the amount associated with existing uses. Many of the scenarios involve mixed use projects within walking distance of transit stops. Residents of these buildings will travel more frequently by means other than single occupancy vehicle trips.

The R-2 and R-1 scenarios will also generate less traffic than the single family detached homes that would otherwise be developed on these sites. The housing units are typically smaller than single family detached homes and may have parking for only one vehicle.

UTILITIES

All utility systems include three components: on-site connections, off-site collection and/or distribution, and system treatment, storage and/or generation. City water and sewer systems probably have adequate treatment and storage capacity. Collection and distribution systems are in place in the developed areas considered as receiving zones. Distribution and collection systems may be undersized in some areas if a major increase in development occurs. In such cases, private developers could be required to fund a portion of the cost of increasing the associated capacity. On-site connections will be the responsibility of developers in all cases.

Electrical and telephone service providers generally fund the extension of necessary facilities to new development.

In summary, there isn't likely to be any utility capacity constraints associated with additional density in the identified receiving areas.

COMMUNITY AMENITIES

Community amenities include a variety of public facilities that make a community and specific projects attractive for residents, employees, and visitors. Such amenities include sidewalks, streetscape improvements, pedestrian plazas and pedestrian pathways, parks and recreation facilities, and cultural facilities. Such facilities are important to accommodate an increasingly dense environment, and to justify the higher rents or sales

prices necessary to provide an adequate return on investment for the higher capital costs of high density development.

All the TDR scenarios are intended to encourage pedestrian activity, both to access nearby transit, as well as commercial and public services. Accordingly, pedestrian connections are a critical community amenity. At a minimum, this includes sidewalks to provide safe separation from vehicular traffic. It is also desirable that the sidewalks include attractive streetscape elements such as plantings, street furniture, and public art. Costs for such improvements range from approximately $15 per square foot for a basic sidewalk to $50 per square foot for an attractive public plaza or pedestrian pathway.

In the case of the R-3 scenarios, the most important potential amenity would be a pedestrian connection to nearby mixed use zones and public transportation corridors. In particular, the R-3 scenario shown would benefit from a pedestrian linkage to Evergreen Way and the SWIFT bus service. Such a connection would require property acquisition or an easement across private property.

The C-2 ES would benefit from pedestrian linkages from the Broadway Mixed Use zone to the west and the station itself to the east, as well as connections to the Everett Events Center and downtown restaurants and shops to the north and west. Sidewalks are available on 32nd and 33rd.

USE OF TAX INCREMENT FINANCING

Engrossed Senate Bill 5253 provides for tax increment financing in conjunction with transfer of development rights. This section provides a preliminary estimate of sources and uses of the tax increment based on the TDR scenarios. These estimates can be refined with additional information, particularly the allocation of TDR's to the City by Puget Sound Regional Council (PSRC), but they do suggest the relationship among several key parameters and the potential tax increment. They also suggest potential challenges in application of the program.

SUMMARY OF PROGRAM

The key elements of ESSB 5253 can be summarized as follows:

- The City can set up one or more local infrastructure project areas with proposed improvements for infrastructure, affordable housing, public area maintenance, and historic preservation.

- A portion of the property tax revenue generated by new construction or renovation in any project area can be devoted to funding improvements: 75% of regular property taxes (excluding state schools, Port/PUD debt service, and excess levies) times a city ratio (share of total allocated TDR's to be used in project areas).

- The tax increment is fixed as of the initial year, and the increment can be collected for up to 25 years if thresholds are met for the pace of development.

ESTIMATE OF REVENUE

The six TDR scenarios can be evaluated for their potential tax revenue impact. The estimate of the tax increment is shown in the table on the following page. The major assumptions and calculations are discussed below.

- The increased assessed value is the identified construction cost for the respective prototypes. It does not include the value of the land.

- The allocation revenue value is the product of 75% of the increased assessed value and the City ratio. As presented above the City ratio is share of the City's total TDR allocation to be used in the infrastructure plan areas. The 50% assumption is arbitrary at this point because there is no allocation, and there is no estimate of total TDR's to be used. The impact of this assumption is considered further at the end of this chapter.

- The regular property tax levy rate is assumed to be $4.26 per $1,000 assessed value. This is the tax rate for applicable taxing jurisdictions in Everett for 2011. This amount is considerably less than the total tax rate of $11.90 per $1000 because it excludes excess levies for the local school district and the State tax for support of schools.

- The annual allocation revenue ranges from $355 for the R-2 scenario to $121,000 for the R-3 scenario. The net present value of these level revenue streams over a 25 year period would be $5,300 and $1.8 million, respectively for the two scenarios. The net present value is the amount of debt that could be issued with debt service paid from the tax increment. 25 years is the maximum period for which the tax could be collected. 4.5% is an approximate prevailing interest rate for 25 year tax exempt bonds.

These amounts could fund the following level of infrastructure improvements:

$5,300 could fund 44 lineal feet of sidewalk eight feet wide, using a unit cost of $15 per square foot.

$1.8 million could fund 3,000 lineal feet of streetscape improvements twelve feet wide, using a unit cost of $50 per square foot.

Table 23
Estimated Tax Increment for TDR Scenarios

	TDR Scenarios					
	E-1 MUO	**C-2 ES**	**B-2**	**R-3**	**R-2**	**R-1**
Increased Assessed Value	$13,802,850	$30,879,285	$53,018,555	$75,767,225	$222,250	$937,100
Allocation Value Factors						
City Share	50%	50%	50%	50%	50%	50%
75% Share	75%	75%	75%	75%	75%	75%
Allocation Revenue Value	$5,176,069	$11,579,732	$19,881,958	$28,412,709	$83,344	$351,413
Regular Tax Rate ($/1000)	4.26	4.26	4.26	4.26	4.26	4.26
Annual Allocation Revenue	$22,054	$49,339	$84,714	$121,062	$355	$1,497
Net Present Value (25 years 4.5%)	$327,028	$731,616	$1,256,157	$1,795,136	$5,266	$22,203

CHALLENGES OF APPLYING PROGRAM

While the estimates above suggest that there are tangible benefits to use of the program, there are several elements that may provide challenges.

1. The City ratio has a proportionate relationship with the tax increment. The number of TDR's to be allocated to the City has yet to be determined. The total number of units for eligible sending sites in the County have been estimated but not confirmed. The preliminary allocation for the City is approximately 1,500 TDR credits at the sending end. Even with a low transfer rate of 2 units at the receiving end for each unit at the sending end, the total allocation at the receiving end would be 3,000 units. Any share of TDR's in the infrastructure plan areas of less than 1,500 would result in a city ratio less than the 50% that is assumed in Table 23. Established TDR programs in Seattle have not experienced near this level of TDR use.

2. It's possible that the tax increment wouldn't be collected for the full 25 years. The threshold targets in the legislation require that 50% of the specified portion (the amount identified for the plan areas) of TDR's must be used (building permits issued) within 10 years for the collection period to be extended to 15 years; 75% of the specified portion used within 15 years for the period to be extended to 20 years; and 100% of the specified portion used within 20 years for the period to be extended to 25 years. (Section 701.3) If the pace of real estate activity declines, the City may find that the revenue stream is terminated before 25 years.

3. The City must commit when creating a local infrastructure project area to receive TDR's or purchase its portion to be held in reserve. (Section 402.1.b.ii.) This is both a speculative and expensive requirement.

The combination of points 2 and 3 above would discourage the city from committing to a large specified share of units in the infrastructure plan areas, but as a result the city share as considered in point 1 will be low, and the actual revenue stream will be discounted heavily from the actual value of new development.

In summary, the tax increment financing tool would not be viable for the City under current terms.

POTENTIAL MITIGATION

As identified in the compatibility section, all of the TDR scenarios feature additional bulk, if not height. Conflicts with surrounding developments can be addressed at least partly by regulation of setbacks and height.

Both the C-1 and B-2 zones could allow greater flexibility in height stepback requirements in areas adjacent to low density residential zones in conjunction with TDR purchases for additional density. Current height stepback provisions and alternative approaches are presented below.

CURRENT HEIGHT LIMITS IN C-1 AND B-2 ZONES:

The current height limits are:

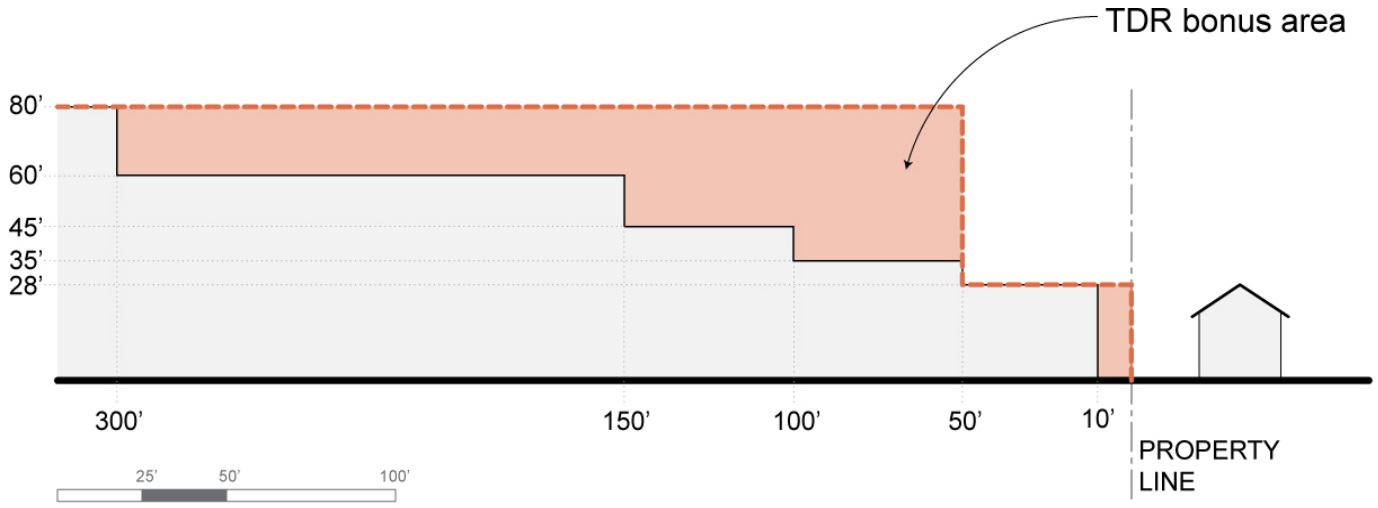
28’ areas < 50’ from R-S, R-1, and R-2 zones
35' areas at least 50' from R-S, R-1, R-2 zones
45’ areas at least 100’ from R-S, R-1, and R-2 zones
60’ areas at least 150’ from R-S, R-1, and R-2 zones
80’ areas at least 300’ from R-S, R-1, and R-2 zones

ALTERNATIVE HEIGHT STEP-BACK APPROACHES VIA TDR

Below are optional approaches to relax current building height step-back requirements on C-1 and B-2 properties adjacent to single family zones.

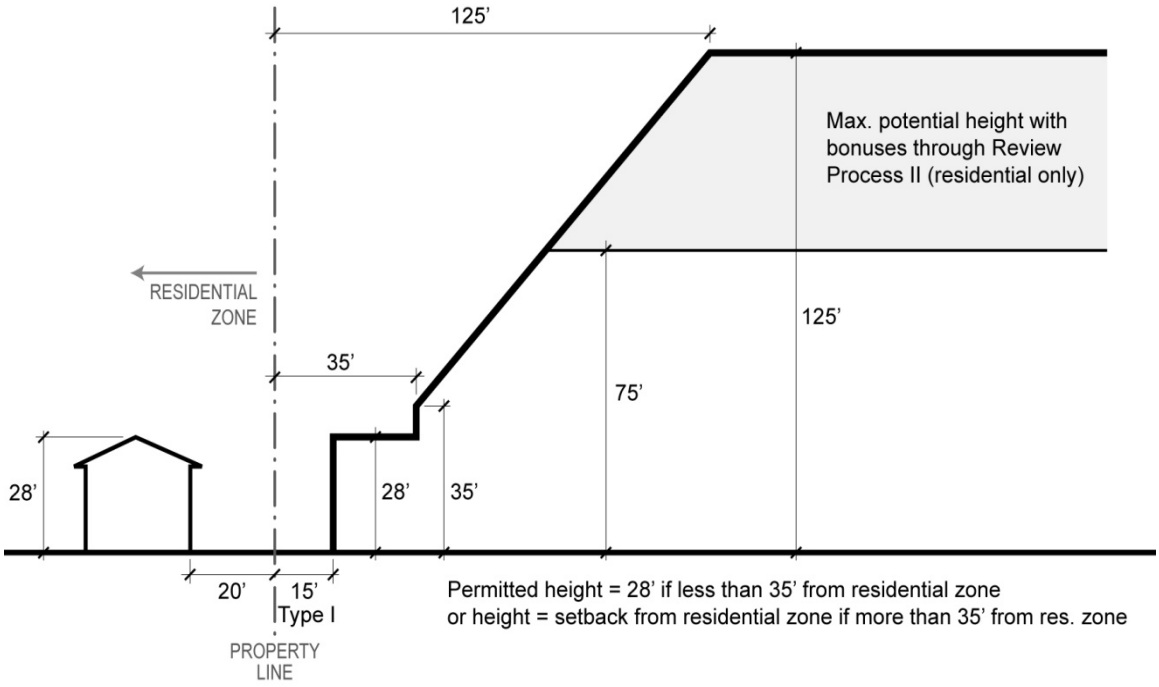
Alternative #1: Use Broadway Height Approach: Provide a 50’ buffer adjacent to R-S, R-1, and R-2 zones where the height limit for those first 50’ must be the same as the applicable R zone. The shaded area in the graphic illustrates extra height capacity under this scenario that could be available via TDR density bonus incentives.

Figure 13
Broadway Height Setback Approach



Alternative #2: Match Evergreen Way Stepback Approach: The graphic below illustrate the differences between current height-stepback standards in the B-2 and C-1 zones and the proposed stepback provisions proposed for the planned E-1 and MUO zones along the Evergreen Way corridor. The shaded area in the graphic illustrates extra height capacity under this scenario that could be available via TDR density bonus incentives.

Figure 14
Evergreen Way Plan Setback Approach: Landscape Buffer



VIII. CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

1. A Transfer of Development Rights program is a market-based concept that seeks to shift development density from areas identified as open space and resource lands to urban areas with appropriate services and supporting facilities.

A developer seeking to build more space than the underlying zoning will allow can compare the cost of purchasing additional land or purchasing development rights through a program like Transfer of Development Rights. The value of the TDR's is related to the cost of land at the underlying zoning, potential construction efficiencies, and the strength of demand.

2. TDR programs in the Puget Sound Region have only been successfully applied in receiving areas where development sites are scarce and the price of land is high.

There are many more transactions at the sending ends than actual redemptions at the receiving sites. The major successful uses of the program have been in the Denny Triangle of Seattle. The value of development rights purchased in the private market is much lower than the price paid through the public programs at the sending end.

3. Based on the 2007 Buildable Lands Study, the City has a capacity for additional development of 13,000 additional units under current zoning, with 12,000 units in commercial or multifamily zones.

The business and commercial zones have the greatest capacity for additional dwelling units. While there are vacant and partial use sites in all three categories, the greatest capacity is for redevelopment sites.

4. Current multifamily housing projects are occurring in lower density zones or at densities lower than the maximum level allowed.

Most of the recent developments are built at 3 to 4 stories with a mix of surface and structured parking. Even in the zones without height limits, the recent buildings have not exceeded 80 feet. The R-3 zone allows 45 feet in height, but recent buildings are 2 and 3 stories. Most of the projects are single-purpose residential buildings.

5. The best TDR opportunities based on the combination of current zoning provisions and recent development characteristics are:

C-2ES zone near the Everett Station where no residential (other than live-work units or projects on sites two acres or larger) is currently allowed and with a major transit station and related public investment in place.

C-1 and B-2 zones (proposed MUO and E-1 zones on Evergreen Way) along the SWIFT Bus Rapid Transit route.

R-3 zone which is extensive and where the current allowed density is low.

R-1 zone where cottages could be developed at twice current densities to expand the range of available housing alternatives.

6. The strongest market opportunities for higher density new development that might benefit from TDR's are sites that offer unique and scarce features, thus justifying a cost premium; and in zones where existing development is at allowable maximum densities.

High amenity settings offer water and/or mountain views, proximity to public and commercial services, and an attractive streetscape and surrounding development. Such settings could accommodate single-purpose residential or mixed-use buildings. Downtown qualifies for the category; however, given the lack of density and height restrictions, there is no economic incentive for a developer to purchase development rights in the area. Areas on the periphery of Downtown and elsewhere in zones other than the B-3 and R-5 zones could attract higher-density development. R-3 and R-4 zones in areas with views and attractive settings should be considered.

The major transit corridors offer the potential to provide higher-density development, while taking advantage of the excellent public transportation. In particular, the R-2 and R-3 zones west and east of Evergreen Way could accommodate increased density as the nodes on the corridor itself experience even greater density. In particular, R-2 zones along the Corridor could allow townhomes at densities comparable to R-2A. The C-2ES zone at the Everett Station is an obvious candidate as well.

7. The market should support mixed use projects with multifamily residential development, as well as single purpose residential buildings.

The outlook for retail is positive particularly for neighborhood and convenience retail. Such tenants are often found in mixed-use buildings. Prevailing rental rates are low compared to the region as a whole, and will be a factor in the overall feasibility of mixed-use development. General purpose office is not a strong candidate use for a mixed-use residential building, because the amount of upper level floor area is limited, and there are few mutual benefits between residential and office uses.

8. Six scenarios provide a combination of the identified zoning market opportunities; opportunities that are site-specific in most cases, but reflective of opportunities throughout a zone.

The six scenarios reflect different underlying zoning, mixed use and single purpose residential, a range of densities and heights, different combinations of surface and structured parking, and different product types.

	E-1 MUO	C-2 ES	B-2	R-3	R-2	R-1
Site Area (acres)	1.08	1.87	6.52	9.17	0.14	0.59
Gross Building Area (SF)						
Residential	106,800	208,100	349,600	558,000	2,400	8,086
Commercial	-	5,800	34,900			
Subtotal	106,800	213,900	384,500	558,000	2,400	8,086
Residential Units						
Total Units	121	205	341	558	2	9
Parking Spaces						
Surface	-	-	70	-		
Structure	104	320	443	630	2	9
Subtotal	104	320	513	630	2	9
Residential Spaces per Unit	0.86	1.56	1.30	1.13	1.00	1.00
Density						
Assumed	112.3	109.6	52.3	60.9	14.4	15.3
Current Maximum	58.0	-	29.0	29.0	7.2	1.7

9. The financial analysis addresses whether the TDR bonus scenarios are feasible, whether there is an incentive to purchase development rights to achieve the bonus density, and the appropriate value to place on development rights.

A base case and three bonus cases are considered for each zoning scenario. The base case represents potential development under current zoning. The first bonus case considers the higher density development without a charge for the TDR's. The second bonus case considers the higher density development with a charge for the TDR's at an assumed level. The third bonus case for the E1, C-2 ES, B-2, and R-3 cases assumes that the project is eligible for the Multifamily Tax Exemption program. In previous feasibility studies in Everett, this program is shown to be a powerful tool to enhance the economic incentive for development.

10. A project is considered to be feasible if its value at completion exceeds the development cost by an amount equal to 10% of the development cost.

In the case of a single family or townhome development, the completed value is calculated as the net proceeds from sale of units. In the case of apartments and commercial, the value is calculated as the capitalized value of the annual income stream. Development cost is calculated as the sum of land acquisition, building construction, and soft costs. Development costs are expressed in today's dollars, as if the development proceeds immediately. Rent levels and sales prices are assumed for a future stabilized year, approximately three years in the future to allow for construction and lease-up. Development costs assume land acquisition at current prices for the underlying zoning.

11. The higher density scenarios achieve improved economic performance in most cases, but fall short of the targeted entrepreneurial return of 10%. For many scenarios, the target return could be achieved with realistic potential increases in rent.

The reduced land cost per unit and the increased value associated with higher rents offsets the increased construction cost for structured parking. The cases that approach the

target return are those that take advantage of the Multifamily Tax Exemption program. The savings in operating expense increases the value of the projects in those cases.

12. The scenario that performs the best is the E-1 MUO.

The E-1 MUO is the only scenario that achieves the target return of 10%. It benefits from a low parking ratio. However, this scenario would not be feasible under current assumptions without the MFTE.

13. The E-1 MUO scenario could support a price per gross square foot of TDR at $5.23, equivalent to a transfer rate of 2.9 square feet at the receiving end, assuming a sending site value of $15,000, and an average unit size of 1,000 gross square feet.

Those other scenarios can't support any non-negative charge for the transferred development rights.

14. Ultimately it is the multifamily tax exemption program that makes the bonus schemes even marginally feasible.

Application of both a TDR and a tax exemption program would have the effect of funding rural land preservation through the foregone tax revenues from the tax exemption, rather than the payments from developers.

15. The higher density bonus cases are generally compatible with existing development.

The allowable uses are the same in most cases as under the base zoning. The overall bulk of development would be higher, but the associated impact could be mitigated with height and setback regulations. In the C-2 ES scenario, residential uses may create conflicts with existing warehouse and industrial uses. Such businesses often fear that resident complaints about noise and truck traffic might result in restrictions to their operations.

16. The higher density development under the TDR scenarios may place greater demands on infrastructure, but these demands may not exceed the infrastructure capacity for the foreseeable future. The most important infrastructure needs are likely to be community amenities such as sidewalks, streetscape improvements, pedestrian pathways and parks.

Regarding streets, most of the sites considered have excellent transportation access and proximity to commercial services and public amenities. While locally generated traffic on these streets may increase as a result of additional density, it will likely be much less than existing through-traffic on these routes. For utilities, private developers would be required to fund a portion of any cost of increasing the associated capacity. Community facilities are important to accommodate an increasingly dense environment, and to justify the higher rents or sales process necessary to provide an adequate return on investment for the higher capital costs of high density development. All the TDR scenarios are intended to encourage pedestrian activity, both to access near-by transit, as well as

commercial and public services. Accordingly, pedestrian connections are the most important community amenity.

17. Recent legislation authorizing tax increment financing in conjunction with transfer of development rights is unlikely to generate significant levels of funding for infrastructure improvements.

While density scenarios could support the development of needed pedestrian improvements with the full tax increment, the available increment is discounted by applying a factor that reflects the City's use of TDR's as a percent of its allocation. Given the likely use of TDR's and the likely high allocation, the factor will be low, and the available tax increment will be low as well.

RECOMMENDATIONS

1. The City shouldn't be an active participant in the Transfer of Development Rights program as currently conceived in the regional TDR program and current legislation.

Demand for higher density development is not high enough at this time to support an extra charge for development rights. Further, the amount of development rights currently identified as available are far greater than the realistic capacity of participating receiving cities under realistic transfer rates. The Tax Increment Financing program tool for use in conjunction with TDR's does not provide a significant benefit to the City under current legislation.

2. The City should make use of the powerful Multifamily Tax Exemption program to encourage higher density development in areas of the City which are the most promising candidates for higher density development.

The Multifamily Tax Exemption program can provide a strong financial incentive for developers to pursue higher density residential development. The City can set appropriate criteria for location, income levels and densities, as well as desirable design features. Provision of development meeting these criteria will come at the cost of foregone tax revenue. The City should invest its foregone revenue in such ways as to maximize its own returns. While the nature and value of the returns are subjective and subject to local policy determination, the return from desired development characteristics would be captured entirely by the City, while the preservation of open space or resource lands is not captured directly and is shared throughout the County.

3. The City should consider proposing changes to the Tax Increment Financing provisions for the Transfer of Development Rights program, to increase the value of the infrastructure improvements that could be funded.

The current tax increment funding tool provides a challenging trade-off: the City must plan for a high share of allocated TDR's in order to receive a high percentage of the tax increment from new development. The lack of strong demand for transferred rights discourages a city from accepting a significant share of its allocation. But by accepting a

smaller share, it reduces the value of the potential increment. The City should work with other jurisdictions to revise the legislation to eliminate the city ratio provisions that creates the disincentive.

APPENDICES

ZONING ANALYSIS

CITY OF EVERETT TDR FEASIBILITY ANALYSIS
ZONING ANALYSIS

CONTENTS

SUMMARY

This document reviews Transfer of Development Rights (TDR) opportunities for development/density receiving areas based on current zoning provisions in the various districts within the city. The charts below examine current zoning and development conditions plus potential TDR opportunities and challenges. Below is a rough initial estimate of the best TDR opportunities based on the combination of current zoning provisions and recent development characteristics:

1. C-2ES zone. Since residential is limited to live-work units and planned developments with a minimum lot size of two acres, and with a major transit station and related public investment in place, there is a substantial TDR opportunity here associated with allowing transit-oriented residential development. The biggest challenges might be resistance from district property owners and a lack of amenities (other than transit station) that convince prospective residents that this would be a good place to live.
2. C-1 and B-2 zones (proposed MUO and E-1 zones). Density bonuses, particularly in the transit nodes appear to be a good TDR opportunity. Consider relaxing height stepback provisions near single family zones together with TDR projects.
3. R-3 zone. Allowing increased density within existing height limit also appears to be a reasonable opportunity given the relatively large extent of the R-3 zone.

Other possible TDR opportunities existing, but the anticipated extent of their use is likely to be smaller than those mentioned above. Possibilities include R-3L (density increase), R-4 (density increase), R-1 (cottage housing), BMU (additional building height for residential uses) and relaxed parking provisions (for multifamily zones). It's also important to note that the BMU zone already contains TDR provisions for the Broadway corridor for additional height associated with non-residential development.

ZONING DISTRICT OPPORTUNITIES – APPLICABLE RESIDENTIAL ZONES

The chart here includes only those zones where there appears to be some potential for TDR bonuses, with one exception (cottage housing in the R-1 zone as discussed following the chart). For example, the R-5 zone is not included, since it allows for unlimited residential density and provides generous building heights already. Other zones such as R-2a and R-3C aren't included since their capacity is so small.

	R-2	R-3L	R-3	R-4
Purpose	Single family at medium density with limited amount of duplexes	A variety of multifamily uses at a low density	A variety of multifamily uses at medium density	Provide high density multifamily uses
Extent of zone	Considerable R-2 zoned areas E/W of 99 in Central/Southern areas	Very limited	Considerable R-3 zoned areas E/W of 99 in Central/Southern areas	Outside of the designated Core Residential Area, the only R-4 zone is located near the north end of the Broadway corridor
Current Uses	SF✓ ADU✓ Duplex✓ with min 7,500sf lot Attached SF ✓ via cluster subdivision only	SF✓ ADU✓ Duplex✓ Attached SF ✓ MF ✓	SF✓ ADU✓ Duplex✓ Attached SF ✓ MF ✓	SF✓ ADU✓ Duplex✓ Attached SF ✓ MF ✓
Current restrictions	Height: 28' Lot coverage: 40% DU/acre: 5,000sf lots Design: Chapter 7 includes design standards for small lot SF and duplexes	Height: 35' Lot coverage: NA DU/acre: 20 Design: Chapter 7 includes design standards for small lot SF and duplexes; Chapter 15 for multifamily standards	Height: 45' Lot coverage: NA DU/acre: 29 Design: Chapter 7 includes design standards for small lot SF and duplexes; Chapter 15 for multifamily standards	Height: 80' with strict stepback requirements near R-1/2 zones Lot coverage: NA DU/acre: 58 Design: Chapter 15 for multifamily standards ; Chapter 7 includes design standards for small lot SF and duplexes
What's been built or proposed here recently?	One townhouse project in the R-2a zone is a 29 unit townhouse development	Recent building permit information doesn't distinguish any R-3L projects (or there are none)	Numerous projects - mostly apartment buildings, variety of sizes from 3-96 units; one townhouse development	Four multifamily projects, including one large 258 unit complex
• What % of zoning capacity are they being built to?	The project above is 8.8 units/acre whereas the density max in R-2a is 15 du/acre		Projects range in density from 17du/acre to the maximum	Projects range in density from 35 du/acre to the maximum

	R-2	R-3L	R-3	R-4
Possible use or capacity bonus via TDR	Uses: Greater flexibility for duplexes (corner lots) and attached single family are worth considering; Also, cottage housing, with a TDR density bonus up to 2 or 2.5 to 1 should be considered.	Uses: N/A – zone already allows full range of use types	Uses: N/A – zone already allows full range of use types	Uses: N/A – zone already allows full range of use types
	Height: Not recommended given housing types and context	Height: Not recommended since current 35' limit generous enough per density	Height: Not recommended, since current 45' limit is generous enough per density	Height: Not recommended, since current 80' limit is generous enough per density
	Lot coverage: Probably not – current 40% generous enough	Lot coverage: N/A	Lot coverage: N/A	Lot coverage: N/A
	Density: Consider smaller lots, perhaps as small as 3,000sf for single family use, 6,000sf for duplexes (5,000 with alley), perhaps a max du/acre increase to 15 or maybe even 20 du/acre	Density: Consider a density increase to 25 or 30 du/acre which would allow greater flexibility and intensity for townhouse developments	Density: Consider eliminating density limit	Density: Consider eliminating density limit – similar to what was done in Core Residential Area
Potential Capacity *Unit counts are based on the City's 2007 Buildable Lands Report – note that some of the properties listed here have been developed since then.*	Pending projects: 190 units Vacant land: 73 units Part used land: 109 units Redevelopable Land: 171 units	Pending projects: 76 units Vacant land: 70 units Part used land: 39 units Redevelopable Land: 109 units	Pending projects: 641 units Vacant land: 113 units Part used land: 44 units Redevelopable land: 622 units	Pending projects: 361 units* Vacant land: 42 units* Part used land: 11 units* Redevelopable land: 960 units* **Some of the land is in R-4 zones within the Core Residential Area , which has no density limitation*
Opportunity Conclusions	With lower overall densities, the TDR impact would be smaller than higher density zones, but given the large extent of the zone and the affordability of small lot single family or duplex construction,	Townhouse developments are the best opportunity for achieving TDR benefits	Clearly the best opportunity based on the extent of zone, developable land, and building height	While the area is not huge, it's a decent opportunity – both in terms of project flexibility given 80' height limits and TDR opportunities

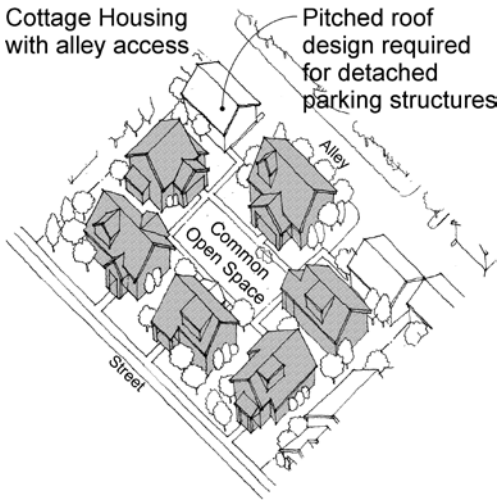
	R-2	R-3L	R-3	R-4
	the possible benefits are worth exploring			
Likely Challenges	Smaller lots could conflict with established character – perhaps a closer analysis of R-2 zones to see how they could be integrated	Configuring townhouses above 20 du/acre is often possible, but requires very compact design forms with less open space – which bring design challenges (see below). Plus, such designs may conflict with established character - perhaps a closer analysis of R-2 zones to see how they could be integrated.	Market challenges – achieving rents high enough to support some form of structured parking needed for densities greater than 29 du/acre	Market challenges – achieving rents high enough to support some form of structured parking needed for densities greater than 58 du/acre
Other Considerations	Having good small lot design standards in place is certainly a plus	Any density increase should be coupled with updated design standards for townhouses – notably involving building separation, internal drive design, landscaping, and usable open space; Also consider a maximum floor area ratio.	Any density increase should be coupled with updated design standards for townhouses – notably involving building separation, internal drive design, landscaping, and usable open space; Also consider a maximum floor area ratio.	

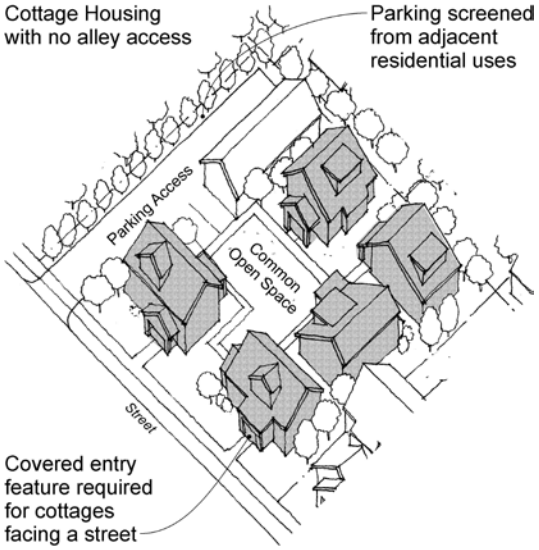
R-1 AND R-2 ZONES TDR OPPORTUNITY: COTTAGE HOUSING

Cottage houses are small single family homes (typically no larger than 1,200sf) that are usually clustered around a small central open space. Several Puget Sound communities allow cottage housing as an alternative to traditional single family homes in single family zones. Their small size and detached nature means that they can successfully be integrated into traditional single family environments. Since they are much smaller than regular single family homes that are typically built today, density incentives are typically needed in order to encourage them. Many communities offer a 2 for 1 density bonus. For example, if the maximum density is 4 units/acre, you could build cottages at 8 units/acre.

Cottages are now only allowed in R-3-5 zoned areas within the Core Residential Area. In terms of TDR opportunities, the R-1 zone logically the best opportunity. The current minimum lot size is 6,000 square feet, which equates to about 7 units/acre. Cottages could be allowed via TDR purchase at densities of up to 200% of current density, perhaps even a little higher. Instead of 7 homes/acre, this would allow up to 14 cottages/acre, perhaps a little higher (or one cottage per 3,000 square feet).

The graphics below illustrate cottage configurations on 120' deep lots. The example on the left includes an alley to the rear, where parking is provided. The lot is about 160' long. The right example is on a lot about 120' by 120' and contains 5 units.





Good design standards for cottage housing are within Everett's Core Design Residential Standards and Guidelines.

ZONING DISTRICT OPPORTUNITIES – APPLICABLE COMMERCIAL/MIXED-USE ZONES

	C-1	C-2ES	B-2	BMU
Purpose	General commercial – wide range of retail + services, plus allows multifamily	Same as C-2, except located around the Everett Station and promoting transit supportive uses	Community business zone – serving several neighborhoods, plus allows multifamily	Broadway mixed-use zone – variety of businesses + services, plus multifamily
What's been built/proposed here recently?	One small and one large apartment complex	No new residential applications	One small apartment building in B-2 zone and several small buildings in the B-2B zone.	One 120 unit mixed-use development proposed
• What % of zoning capacity are they being built to?	Project examples include densities of 22 and 50 du/acre		The B-2 example is 8 du/acre and the B-2B examples range from 6-23	Above development = 187du/acre in density
Extent of zone	About 3 miles of Evergreen Way (south of 75th) is zoned C-1 – however – proposal in place to rezone this area per Evergreen Way Plan; The Everett Mall Way and a few other sites are also zoned C-1, with no rezone plans	The large area surrounding Everett Station.	About 3 miles of Evergreen Way (north of 75th) is zoned B-2 - however – proposal in place to rezone this area per Evergreen Way Plan. Also, a large area north of Silver Lake along I05 is zoned B-2 with no rezone plans.	Covers about 3 miles of the Broadway corridor north and south of downtown.
Current residential uses permitted	Multifamily allowed outright	Live-work units are the only type of housing now permitted in district, except in planned development of 2 acres or more.	Multifamily allowed outright	Multifamily allowed outright
Current restrictions	Height: Up to 80' for MF/MU depending on distance to R zones. Lot coverage: N/A DU/acre: 58 Design: MF Design Standards (Chapter 15)	Height: Up to 80' for MF/MU depending on distance to R zones. Lot coverage: N/A DU/acre: N/A Design: MF Design Standards (Chapter 15)	Height: Up to 80' for MF/MU depending on distance to R zones. Lot coverage: N/A DU/acre: 58 (B-2B zone and Silver Lake area have a 29 unit/acre limit) Design: MF Design Standards (Chapter 15)	Height: 45' - 80' for MF/MU depending on location; areas within 50' of district with lower height limit are restricted to height limit of adjacent district. Lot coverage: N/A DU/acre: N/A Design: Broadway Design Standards (31A.040) + MF

	C-1	C-2ES	B-2	BMU
				Design Standards (Chapter 15)
Possible use or capacity bonus via TDR	Uses: N/A	Uses: All new multifamily uses	Uses: N/A	Uses: N/A
	Height: Greater height flexibility in areas close to R zones should be considered – see Height-Stepback Flexibility section on page 7 for details	Height: No – current 80' generous enough	Height: Greater height flexibility in areas close to R zones should be considered – see Height-Stepback Flexibility section on page 7 for details	Height: Greater height flexibility could be considered for areas with 45' limit – and/or greater flexibility to 50' height setback –
	Lot coverage: N/A	Lot coverage: N/A	Lot coverage: N/A	Lot coverage: N/A
	Density: N/A	Density: N/A	Density: N/A	Density: N/A
Potential Capacity *Unit counts are based on the City's 2007 Buildable Lands Report – note that some of the properties listed here have been developed since then.*	Pending projects: 323 units Vacant land: 271 units Part used land: 15 units Redevelopable land: 1,194 units	Pending projects: 0 Vacant land: 121 units Part used land: 1 units Redevelopable land: 679 units	Pending projects: 472 units Vacant land: 50 units Part used land: 0 Redevelopable land: 602 units	Pending projects: Vacant acreage: Part used: Redevelopable land:
Opportunity Conclusions	The flexibility for additional density and height step backs appears to be a realistic opportunity *Note that roughly half of the current C-1 zone is proposed to be rezoned per Evergreen Way Plan*	Perhaps the best TDR opportunity in the city – due to access to transit station and fact that TDR credits can accumulate starting with the very first units	Same situation as C-1 *Note that roughly half of the current C-1 zone is proposed to be rezoned per Evergreen Way Plan*	The recent (2008) adoption of these height limits may make this change more challenging + the narrow width of lots in this zone, with single family uses across an alley.
Likely Challenges	Two possible challenges – market conditions to accommodate greater density and configuring greater heights while minimizing impacts to adjacent uses	Residential development may conflict with industrial operations. Also existing industrial context impacts the desirability of the area for residential uses.	Same situation as C-1	See above.

C-1 & B-2 Zones: Height Stepback Flexibility

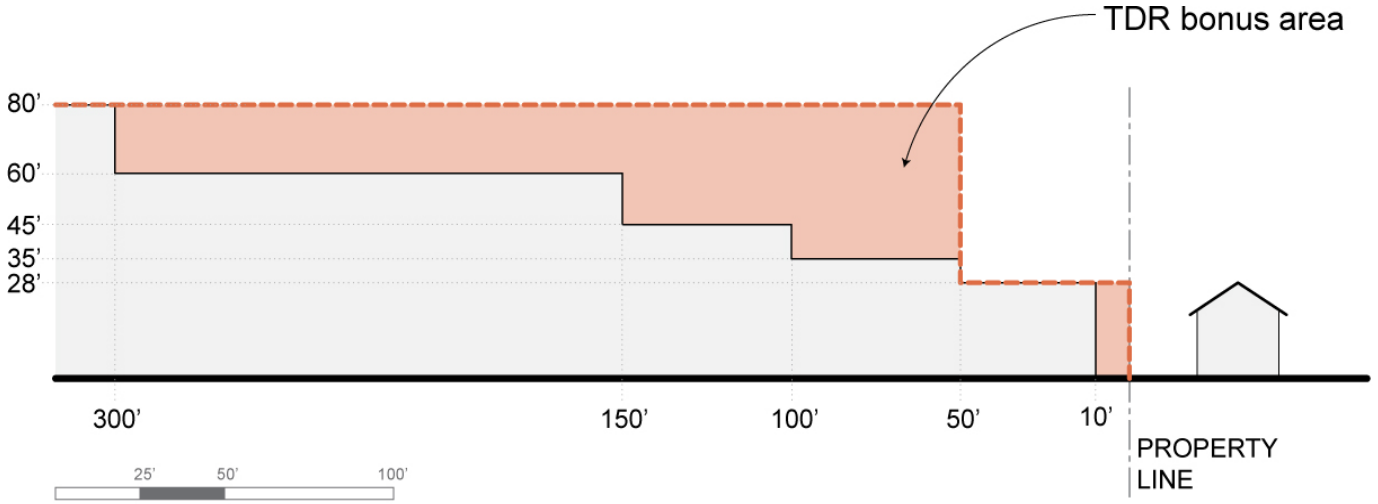
Both zones could allow greater flexibility in height stepback requirements in areas adjacent to low density residential zones in conjunction with TDR purchases for additional density. Below are current height stepback provisions and two alternative approaches.

Current Height Limits in C-1 and B-2 zones:

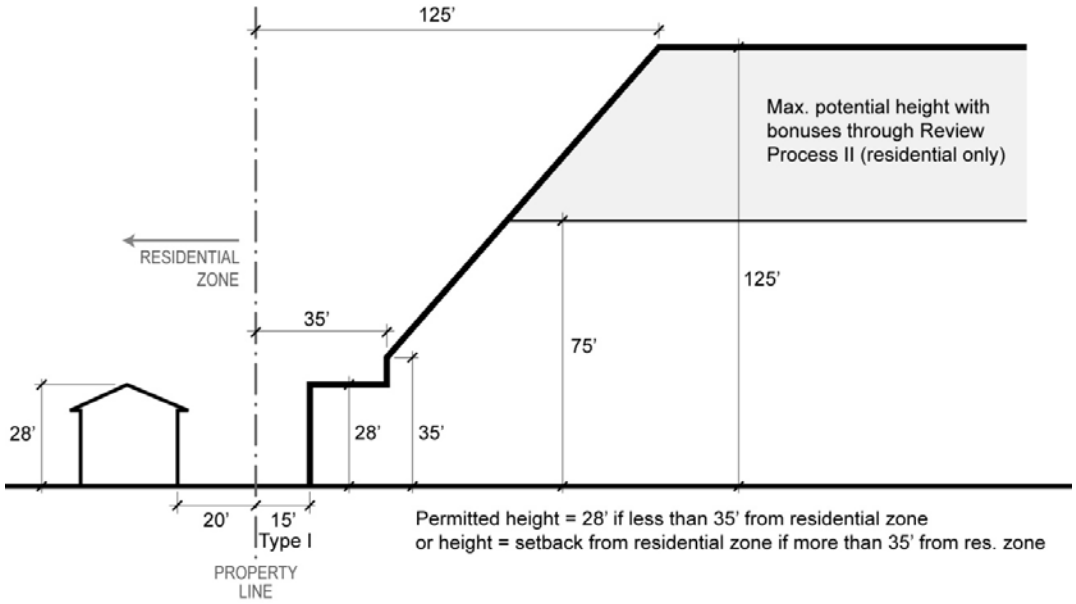
28’ areas < 50’ from R-S, R-1, and R-2 zones
35' areas at least 50' from R-S, R-1 and R-2 Zones
45’ areas at least 100’ from R-S, R-1, and R-2 zones
60’ areas at least 150’ from R-S, R-1, and R-2 zones
80’ areas at least 300’ from R-S, R-1, and R-2 zones

Alternative Height Stepback Approaches via TDR

Alternative #1: Use Broadway Height Approach: Provide a 50’ buffer adjacent to R-S, R-1, and R-2 zones where the height limit for those first 50’ must be the same as the applicable R zone. The shaded area in the graphic illustrates extra height capacity under this scenario that could be available via TDR density bonus incentives.



Alternative #2: Match Evergreen Way Stepback Approach: The graphics below illustrate the differences between current height-stepback standards in the B-2 and C-1 zones and the proposed stepback provisions proposed for the planned E-1 and MUO zones along the Evergreen Way corridor. The shaded area in the graphic illustrates extra height capacity under this scenario that could be available via TDR density bonus incentives.



Revised E-1 & MUO zone setback approach

PROPOSED E-1 AND MUO ZONES (EVERGREEN WAY)

The City has been examining density bonus provisions that include an option to use TDR's as one of four choices to increase density above the base 58 units/acre density. These areas are now mostly within the C-1 and B-2 zones discussed above.

PARKING REQUIREMENT FLEXIBILITY

Chapter 34 provides off-street parking requirements for multifamily uses. Downtown and the Core Residential Area have reduced parking requirements (1 space/unit downtown and 1 to 1-1/2 spaces/unit depending on the number of bedrooms. The other areas outside the core generally require 2 spaces per unit regardless of the unit size (there are parking reduction opportunities for mixed-use developments and developments with more than 100 units). These areas outside the core represent opportunities for TDR provisions. For example, for applicants seeking to participate in the TDR program, parking requirements could be reduced to 1 space/studio unit and 1.25 or 1.5 spaces/1 bedroom unit.